DOCUMENT RESUME

ED 462 503 UD 034 791

AUTHOR	Shaul, Marnie S.
TITLE	Title I Funding: Poor Children Benefit though Funding Per Poor Child Differs. Report to Congressional Addressees.
INSTITUTION	General Accounting Office, Washington, DC.
REPORT NO	GAO-02-242
PUB DATE	2002-01-00
NOTE	74p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 37050, Washington, DC 20013 (first copy, free; additional copies $2 each). Tel: 202-512-6000; Fax: 202-512-6061.
PUB TYPE	Reports - Research (143)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	Elementary Secondary Education; *Expenditure per Student; Grants; *Poverty; *Resource Allocation; School Districts; State Government
IDENTIFIERS	*Elementary Secondary Education Act Title I

ABSTRACT

This study examined Title I funding allocations for school years 1999-2002 and actual allocations received by school districts, interviewing state Title I directors, surveying school district administrators nationwide, and interviewing representatives from relevant federal and national organizations. Title I funds were generally targeted based on numbers and percentages of poor children, though the complex allocation process resulted in differences in actual funding per child among states, districts, and schools. When numbers of poor children shifted among states, Title I allocations adjusted, but not completely. This unresponsiveness was due to lack of current poverty data and various hold-harmless provisions. Allocation of Title I funds did not encourage states to target their own funds to poor children. Various policy choices could increase the extent to which Title I funds are allocated to states and districts with high percentages of poor children (changing the appropriations hold-harmless provisions, funding targeted grants, using an alternative cost factor, and raising the basic grant eligibility threshold). Six appendices provide research methodology; supporting data; provisions of the "No Child Left Behind Act" and related appropriations; comments from the Department of Education and the Department of Agriculture; and GAO contracts and staff acknowledgements. (Contains 7 figures and 21 tables.) (SM)

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Report to Congressional Addressees

January 2002

TITLE I FUNDING

Poor Children Benefit Though Funding Per Poor Child Differs

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Abbreviations

GAO	General Accounting Office
NSLP	National School Lunch Program
TANF	Temporary Assistance for Needy Families

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Washington, DC 20548

January 31, 2002

Congressional Addressees

Title I is the largest federal program supporting elementary and secondary education and with annual expenditures of about $8 billion, accounts for about 3 percent of total education expenditures nationally.[1] While state and local funds account for over 90 percent of national education expenditures, Title I is an important source of funding for many high-poverty districts and schools. Created in 1965 as part of the War on Poverty, Title I is designed to help educate disadvantaged children—those with low academic achievement attending schools serving high-poverty areas.

The amount of funds schools receive is the result of a multistep process that combines formula calculations and state and district decisions. States receive funding for their districts from the U.S. Department of Education (Education), which calculates how much states' school districts are entitled to based on their numbers of children from low-income families (poor children) as measured by Census Bureau data and their state's per-pupil education expenditures (a proxy intended to reflect cost differences among states in providing education). When states receive Title I funds, they make adjustments to the calculated district-level amounts in order to set aside funds for state administration and account for differences between their actual school districts, including charter schools, and the districts appearing in Education's database.[2] Once districts receive funds from their states, they have some flexibility in how they allocate funds to individual schools, but generally must target schools with higher percentages of poor children. Not all school districts receive Title I funds because they might not have a minimum number and/or percentage of poor children to meet eligibility thresholds.

[1]Throughout this report, we refer to Title I, Part A of the Elementary and Secondary Education Act as "Title I." Other Parts of Title I (Parts B, C, and D) are targeted at specific populations and are commonly referred to by their program names (Even Start, Migrant Education, and grants for Neglected and Delinquent Children).

[2]The districts appearing in Education's database for the 1999-2000 school year were the districts as they were configured in 1995.

In the past several years, the Congress has been concerned about the achievement gap between disadvantaged students and their more advantaged peers and how to improve the performance of children from low-income families. Some studies have indicated that schools with higher numbers and percentages of poor children may have higher costs associated with raising student performance. The Congress has had a dilemma of wanting to improve the performance of poor children through increased targeting of poor children while simultaneously protecting districts whose share of these children has declined from losing a significant amount of funds. To increase targeting, in 1994 the Congress added a new formula to the Title I program, which would have provided more funds to districts with higher numbers and percentages of children from low-income families, but until fiscal year 2003, no funds were appropriated for this formula. To protect districts from a significant loss of funds when their numbers of poor children decline, the Congress has implemented several "hold-harmless" provisions. The issues of targeting and hold-harmless provisions were much debated in Congress' recent efforts to reauthorize the Title I program.

In light of these issues, the Congress mandated GAO to study Title I allocations, specifically (1) the extent to which Title I funds are allocated to states, school districts, and schools with the greatest numbers and percentages of school-age poor children; (2) the extent to which allocations of such funds adjust to shifts in the numbers of poor children; (3) the extent to which the allocation of Title I funds encourages the targeting of state funds to school-age poor children; and (4) what options might improve targeting of funds, especially to states and school districts with higher numbers and percentages of poor children, to more effectively serve those children.[3]

In doing our work, we performed extensive analysis of data collected from a number of federal, state, and local sources. We obtained data on Title I formula allocations for school years 1999-2000, 2000-01, and 2001-02 from Education and obtained the actual allocations received by school districts in the 1999-2000 school year from state officials. We interviewed every state Title I director, surveyed a nationally representative sample of school district administrators, and interviewed representatives of relevant federal agencies and national organizations. We conducted our work from

[3]In March 2001, we briefed officials on the Authorizing and Appropriations Committees on the preliminary results of this work.

December 2000 through December 2001 in accordance with generally accepted government auditing standards. Appendix I provides a more detailed discussion of our methodology.

Results in Brief

In the 1999-2000 school year, Title I funds were generally targeted based on numbers and percentages of poor children, but the complex allocation process resulted in differences in actual funding per poor child among states, school districts, and schools. States with similar numbers and percentages of poor children did not always receive similar Title I allocations. The same was true of school districts. State and district funding levels differed because factors other than numbers of poor children are included in Education's formula calculation, for example, the amount a state spends on education. At the school level, more dollars were targeted to schools with higher percentages of poor children. However, funding per poor child still varied at the school level, reflecting the flexibility districts have in setting priorities and allocating funds to individual schools, such as to target funds to elementary schools rather than to middle or high schools.

When the numbers of children from low-income families shift among states, Title I allocations adjust, but not completely. In other words, a state whose share of the nation's poor children changed from one year to another would not necessarily see a corresponding change in its Title I allocation amount. Principally, two factors account for this lack of responsiveness — a lack of current poverty data and various hold-harmless provisions. Education uses Census Bureau estimates of poor children, which are available only on a lagged basis, to calculate allocations. Over the past decade, the Census Bureau has been required to increase the frequency with which it updates poverty data, allowing the Department of Education to use more current Census data to make Title I formula calculations more responsive to shifts in poverty. The hold-harmless provisions limit the extent to which Title I funds can shift at all, even when shifts in poverty occur. In the absence of these provisions, some disparities between Title I formula calculations and poverty would remain because the Census data always lags behind the years in which it is used for the formula.

The allocation of Title I funds does not encourage states to target their own funds to children from low-income families. Our review of the Title I statute and regulations found no monetary, statutory, or regulatory incentive for them to do so. For example, states do not receive extra Title I funding in return for targeting state funds to poor children. According to

recent interviews with state Title I directors and our previous studies, Title I allocations are rarely used by states as a model for targeting their own funds.

A number of policy choices could increase the extent to which Title I funds are allocated to states and school districts with high numbers and percentages of poor children, if desired. The policy choices for doing so include changing the appropriations hold-harmless provisions, funding the targeted grant, using an alternative cost factor, and raising the basic grant eligibility threshold. Using less restrictive hold-harmless provisions would reduce the differences in funding among school districts with similar numbers and similar percentages of poor children and allocate more to states with more rapidly growing numbers of poor children. Funding targeted grants and raising the eligibility threshold would shift funding toward districts with higher percentages of children in poverty and away from districts with lower percentages. Using an alternative cost factor instead of per-pupil expenditures would also have the effect of shifting funds to districts with higher percentages of children in poverty and to a lesser extent to districts with large numbers of children in poverty. The extent to which formula changes are desired would depend on the desired balance between, among other things, making formula allocations reflective of numbers and percentages of poor children and making formula allocations relatively stable. The full effect of each change would depend on whether other changes were made at the same time and on the extent to which states later altered the resulting formula amounts before distributing the funds to their school districts.

In written comments on our draft report, the Department of Education generally agreed with the reported findings. The U.S. Department of Agriculture, in commenting on the draft report, highlighted its concerns about the quality of school lunch data, which we used as one of our measures of poverty. Although we acknowledge that these data have limitations, we believe that our use of school lunch data, in combination with Census poverty estimates, was appropriate.

Background

Title I grants are intended to help elementary and secondary schools establish and maintain programs that will improve the educational opportunities of low-income and disadvantaged children. Title I funds are intended to provide instruction and instructional support for these disadvantaged children so that they can master challenging curricula and meet state standards in core academic subjects. The law does not stipulate exactly how Title I funds are to be spent. Instead, Title I is an example of

flexible funding that local and state educational agencies may use as they deem best.

Title I funds are directed toward states and school districts with greater numbers and percentages of poor children regardless of the level of funding they receive from state and local sources. Although the amounts that states and localities spend on education vary due to differing resource bases and funding priorities, Title I funds are not intended to compensate for this variation.

Federal Allocation Process

The U.S. Department of Education each year determines the distribution of Title I funds according to the mandates of the law. The authorizing legislation in effect through the 2001-02 school year provided for four different kinds of Title I grants:

Basic Grants are the primary vehicle for Title I funding and are the easiest grants for which school districts can qualify. Districts are eligible for basic grants if they have at least 10 poor children and the number of poor children is more than 2 percent of the district's school-age children.[4] Nationally, about 92 percent of school districts (containing over 99 percent of poor children) receive basic grants, which accounted for about 85 percent of the Title I funds distributed in fiscal year 1999.

Concentration Grants are somewhat more directed to poor districts than basic grants because district eligibility criteria for concentration grants are stricter than those for basic grants. Districts are eligible for concentration grants if they have more than 6,500 poor children or the number of poor children is more than 15 percent of the district's school-age children. Nationally, about 60 percent of school districts (containing about 85

[4]In addition to poverty, standards used to classify children as Title I-eligible include participation in the Temporary Assistance for Needy Families (TANF) program and being a child in a foster home or in a locally operated institution for neglected and delinquent children. Collectively, these children are called "formula-eligible children." Unless otherwise noted, in this report, "poor children" is used to refer to children who are poor as measured by Census data or, when indicated, children eligible for free or reduced-price lunch. Ninety-six percent of all children classified as formula-eligible would also be classified as eligible for Title I using Census poverty estimates.

percent of poor children) receive concentration grants, which accounted for about 15 percent of the Title I funds distributed in fiscal year 1999.[5]

Targeted Grants were not funded until fiscal year 2003.[6] Targeted grants would be directed more to high-poverty states and districts; as the number and percentage of poor children in the district increase, the targeted grant amount would increase both in absolute dollars and proportionally to other districts. A district would be eligible for targeted grants if it had at least 10 poor children and these children accounted for at least 5 percent of its school-age children. In the 2001-02 school year, about 86 percent of school districts, containing 99 percent of poor children would have been eligible to receive targeted grants had they been funded.

Incentive Grants were not funded until fiscal year 2003.[7] Incentive grants would not be distributed on the basis of poverty, but would provide additional funds to states that demonstrate high state spending relative to their tax base and states that have less disparity in funding among their districts. Under this formula, states would distribute funds to districts in proportion to the remainder of their Title I allocations.

Title I funds are distributed from the federal government to the states, based on data that are measured at the school district and state levels. Since school year 1999-2000, for each school district meeting eligibility requirements based on numbers and/or percentages of poor children, Education has based its formula calculations on the number of poor children in the district. (Prior to that time, formula calculations were based on counties rather than school districts. The change occurred, in part, due to concern that poor school districts in otherwise wealthy counties were not receiving the Title I funds they needed.) The funding formula for basic and concentration grants principally involves multiplying the number of poor children in a school district area, as measured by Census and other data sources, by the state's average per-pupil

[5]Although the districts receiving basic grants and concentration grants contain about 99 and 85 percent of poor children, respectively, only about 27 percent of all public school students are affected by Title I services. School districts distribute their allocations to a limited number of their schools, which provide services to a limited number of their students.

[6]Legislation signed by President Bush in January 2002 funds these grants beginning in school year 2002-03.

[7]Legislation signed by President Bush in January 2002 funds these grants beginning in school year 2002-03.

expenditure, although these amounts are subject to hold-harmless provisions and a "small state minimum" provision. These key elements of the funding formula for basic and concentration grants are described below:

- Poverty: the number of poor children in the school district area, as estimated by decennial Census data and updated by the Census using statistical modeling techniques. (The poverty threshold for the 2000-01 school year for a family of four was an annual income of $17,050.)
- Expenditures: forty percent of the state's average per-pupil expenditure, limited to a minimum of 80 percent and a maximum of 120 percent of the national average expenditure.[8] This measure is included as a proxy for education costs.
- Small state minimum: Each state is guaranteed a minimum level of funding, which is the smaller of either one-quarter of 1 percent of the overall appropriation, or the average of one-quarter of 1 percent of the overall appropriation and the state's number of eligible students multiplied by 150 percent of the national average per-pupil payment.[9]
- Hold-harmless provisions: guarantee each state and district a minimum level of funding based on past allocations. That is, the allotment cannot be less than a specified percentage of the preceding year's allotment. Such provisions are intended to moderate the effects of any large year-to-year shifts in program funding, numbers of eligible children, or state education spending.[10] The hold-harmless provisions protect states with declining numbers of poor children from reductions in their allocations, but in the absence of increased overall funding, this leaves fewer funds available for states and districts with growing numbers of poor children. Specific hold-harmless rules have changed over time. In the authorizing statute, the hold-harmless level for the basic and targeted grants is set at 85, 90, or 95 percent of the prior year's allocation, depending on the percentage of children in the district who are eligible under the formula (formula children). (The concentration grant does not have a hold-harmless provision in the authorizing statute.) However, for the 1998-99, 1999-2000,

[8]In other words, expenditures would be limited to a minimum of 32 percent and a maximum of 48 percent of the national average expenditure.

[9]For concentration grants, that last term in the average is the greater of the state's number of eligible children multiplied by 150 percent of the national average per-pupil payment, or the amount $340,000.

[10]However, if the hold-harmless level were less than 100 percent and poverty data remained stable, funding would eventually fully adjust to the distribution of low-income children.

and 2000-01 school years, provisions in the appropriations legislation set the hold-harmless level at 100 percent of the past year's allocation.[11] This 100-percent rule was modified for school year 2001-02. Under this new rule, rather than being guaranteed 100 percent of their prior year's funding amount, districts were guaranteed the larger of either their previous year's allotment or the amount they would have received had the authorizing statute's hold-harmless rules been in effect.[12]

The Title I program was reauthorized in January 2002, with some significant changes. See appendix III for details.

State Role in the Allocation Process

A state's allocation is the sum of the district allocations determined by Education. These allocations, however, are not the final amounts that a district will receive. The state must adjust the allocations determined by Education to

- reserve funds for state administration (up to 1 percent of the amount allocated to the state) and for school improvement activities (no more than 0.5 percent of the amount allocated to the state but no less than $200,000) and
- account for changes in district boundaries, district consolidations, and the creation or existence of special districts, such as charter schools or regional vocational/technical schools, that are eligible for Title I funds but may not be reflected in Education's allocations.

In the case of special districts that meet the basic and concentration grant eligibility criteria, the state must ensure that those districts receive the Title I funds to which they are entitled. This may involve reducing the allocations of districts from which these special districts draw children.

In addition, the statute gives states the flexibility to use alternative poverty data, which Education must approve, to redistribute Education-

[11]The appropriations' provisions entitle a state to receive 100 percent of its previous year's funding regardless of the number of districts in that state that meet the minimum eligibility requirements. In cases where there are individual districts within a state that no longer meet the eligibility requirements for a particular grant, the state's full grant amount gets distributed among the qualifying districts for that year.

[12]If the total appropriation for the program is not large enough to fully fund the larger of these two amounts, then every district's allotment is reduced proportionally. This allows more of the Title I appropriation to be distributed on the basis of the poverty criteria in the formula.

determined basic and concentration grant allocations and re-determine eligibility for "small" districts serving areas with fewer than 20,000 total residents. This provision arose out of concerns about the quality of Census poverty estimates for small districts. Roughly 79 percent of all school districts nationally have a total resident population of less than 20,000. Currently, nine states use alternative data to redistribute allocations determined by Education among their small districts. Most of these states use free and/or reduced-price lunch data either exclusively or in combination with Census poverty data.

Within District Allocation Process

Once funds have been allocated to the district level, districts can in turn allocate funds to the schools. Districts have considerable discretion—more so than states—in how they allocate Title I funds. Districts may use Title I funds for district-level activities—including professional development, preschool programs, school improvement initiatives, program administration, and parental involvement efforts. Districts then generally allocate the remaining Title I dollars to the schools. In distributing these dollars, districts are subject to several key restrictions. For example, a district must serve eligible schools or attendance areas in rank order according to their poverty percentage.[13] A district must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty percentage below 75 percent. Once all of the schools and areas with a percentage above 75 percent have been served, the district may serve lower-poverty areas and schools either by continuing with the districtwide ranking or by ranking its schools below 75 percent poverty according to grade-span groupings (i.e., K-6, 7-9, 10-12). If a district ranks by grade-span, it can compare the school's poverty percentage to either the districtwide poverty average or the poverty average for the respective grade-span grouping.[14]

Districts are not required to allocate the same per-pupil amount to each school, but if they choose not to, they must allocate higher per-pupil amounts to poorer schools than they allocate to schools with lower concentrations of poverty. In addition, districts may apply for and receive

[13]Districts with fewer than 1,000 children enrolled are exempt from this requirement.

[14]As long as the districts use the same measure of poverty across all schools, they can choose to use free and reduced-price lunch, Medicaid, TANF, or other measures. The measure used by the district does not have to be the same measure as that used by the state or the federal government in allocating funds.

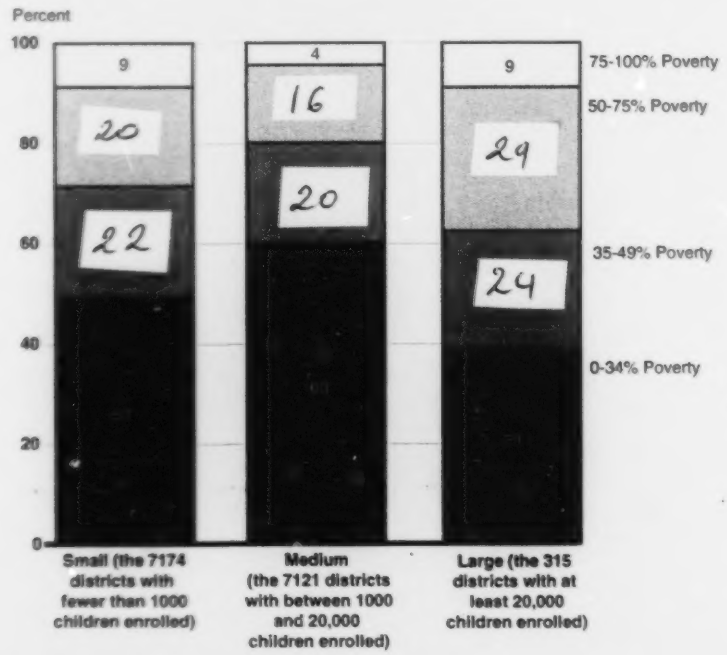
waivers of any of these allocation rules. The Title I statute also requires that school districts provide eligible private school children with Title I educational services or other benefits that are "equitable" to those provided to eligible public school children. The school district provides these services directly to the private school children rather than giving funds to the private school itself.[15] Within the rules, districts may allocate funds to schools as they like.

Distribution of School Districts by Size and Percentage of Poor Children

School districts differ in the size of their enrollment and their percentages of poor children, as shown in figure 1. For example, there are about 7,000 school districts with no more than 1,000 children enrolled and about 300 districts with more than 20,000 children enrolled. Among districts with less than 1,000 children, about half of those districts have more than 35 percent of their children eligible for free or reduced-price lunch, while the other half have fewer children eligible for free or reduced-price lunch.

[15]In this report, analyses of numbers of poor children at the school level include only children in public schools.

Figure 1: Distribution of School Districts by Size and Percentage of Children in Poverty



Source: GAO Analysis.

Allocations Based on Poverty, but Complex Allocation Process Results in Different Allocations Per Poor Child Among States, Districts, and Schools

On the whole, total Title I grants were allocated to states and school districts on the basis of their numbers of children from low-income families in the 1999-2000 school year, but individual states and school districts received different grant amounts for each poor child. Generally, a state's share of poor children was roughly proportional to its share of funds; however, even small differences between the two resulted in substantial differences in funding per poor child. School districts, like states, as a whole received Title I allocations that were in accordance with the numbers of poor children they had enrolled, but actual funding per poor child varied among individual school districts with similar numbers of poor children. The pattern of Title I grant distributions in terms of numbers of poor children among urban and rural school districts is to some extent dependent upon the measure of poverty that is used. When school districts allocated funds to individual schools, they used the flexibility of the Title I program to distribute funds where they believed the need was greatest. Even with this flexibility, most school districts

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allocated the majority of funds to schools in which at least half of the children were classified as poor.

Title I Allocations Per Poor Child Differ Across States

Generally, states with higher numbers of poor children received higher amounts of Title I basic grant funds, and states with lower numbers of poor children received lower amounts of Title I basic grant funds.[16] However, even small differences between a state's share of poor children and its share of funds resulted in substantial differences in funding per poor child. For example, in the 1999-2000 school year, Texas had about 10 percent of the nation's Census poor children and received about 9 percent of the Title I basic grant dollars while Minnesota had about 1 percent of the poor children and 1.2 percent of the dollars. However, Texas's share of the basic grants was about 14 percent less than its share of the poor children while Minnesota's share of the basic grants was about 16 percent more than its share of the children. As a result, Texas's basic grants amounted to $581 per poor child while Minnesota's basic grants amounted to $793 per poor child.[17] Table 1 displays for each state and the District of Columbia its share of Census poor children, share of basic grant dollars, the percentage difference between these shares, and the resulting basic grant amount per poor child.

[16]This relationship holds true whether poverty is measured using Census data or the number of children receiving free or reduced-price lunch. The subsidized lunch program provides a looser definition of "poverty" than the Census poverty data. Eligibility for free lunches is set at 130 percent of the official poverty line ($22,165 for a family of four during the 2000-01 school year), and eligibility for reduced-price lunches extends up to 185 percent of the poverty line ($31,543 for a family of four during the 2000-01 school year). The number of students eligible for subsidized lunches is roughly double the number meeting the Census poverty definition. Nonetheless, according to the Department of Education, the subsidized lunch program provides the best available source of data on low-income students at the school level.

[17]We examined this issue using basic grants alone, rather than combining basic and concentration grants, because many districts that receive basic grants do not receive concentration grants and should not be included in a state-level analysis with those that receive both grants. Nonetheless, an examination of concentration grants alone showed that they, too, were unevenly distributed across states and eligible districts – a point that is discussed later in this report.

Table 1: Distribution of Title I Basic Dollars to States, 1999-2000 School Year

State	Share of Census poor children	Share of basic grant funds[a]	Percentage difference between share of poor children and share of basic grant funds[b]	Basic grant dollars per poor child
Alabama	2.02	1.72	-16.0	$571
Alaska	0.16	0.25	43.9	$1,033
Arizona	2.02	1.61	-22.6	$561
Arkansas	1.28	1.07	-17.9	$534
California	14.69	12.73	-14.3	$581
Colorado	0.94	0.97	3.1	$686
Connecticut	0.8	0.94	16.1	$792
Delaware	0.18	0.26	36.4	$972
District of Columbia	0.28	0.34	19.4	$826
Florida	5.63	4.87	-14.5	$580
Georgia	3.28	2.82	-15.1	$577
Hawaii	0.28	0.28	0	$662
Idaho	0.36	0.31	-14.9	$582
Illinois	3.9	4.46	13.4	$767
Indiana	1.51	1.61	6.4	$717
Iowa	0.67	0.74	9.9	$746
Kansas	0.7	0.75	6.9	$722
Kentucky	1.79	1.72	-4.0	$644
Louisiana	2.76	2.57	-7.1	$623
Maine	0.33	0.42	24.0	$835
Maryland	1.16	1.4	18.8	$806
Massachusetts	1.52	2.01	27.8	$885
Michigan	3.54	4.42	22.1	$838
Minnesota	1.02	1.2	16.2	$793
Mississippi	1.67	1.7	1.8	$683
Missouri	1.93	1.8	-7.0	$625
Montana	0.36	0.35	-2.8	$662
Nebraska	0.36	0.45	22.2	$849
Nevada	0.39	0.32	-19.7	$556
New Hampshire	0.16	0.25	43.9	$1,062
New Jersey	1.92	2.34	19.7	$816
New Mexico	1.15	0.89	-25.5	$520
New York	8.23	9.8	17.4	$798
North Carolina	2.45	1.99	-20.7	$540
North Dakota	0.19	0.26	31.1	$897
Ohio	3.5	4.11	16.0	$786
Oklahoma	1.62	1.3	-21.9	$539
Oregon	0.81	0.94	14.9	$777
Pennsylvania	3.59	4.48	22.1	$837

State	Share of Census poor children	Share of basic grant funds[a]	Percentage difference between share of poor children and share of basic grant funds[b]	Basic grant dollars per poor child
Rhode Island	0.29	0.34	15.9	$799
South Carolina	1.68	1.35	-21.8	$540
South Dakota	0.29	0.26	-10.9	$612
Tennessee	1.9	1.74	-8.8	$613
Texas	10.41	9.01	-14.4	$581
Utah	0.41	0.47	13.6	$775
Vermont	0.14	0.24	52.6	$1,150
Virginia	1.87	1.58	-16.8	$568
Washington	1.44	1.49	3.4	$695
West Virginia	0.9	0.99	9.5	$741
Wisconsin	1.36	1.81	28.4	$891
Wyoming	0.14	0.23	48.7	$1,131
U.S. total or average	**100**	**100**	**6.7**	**$671**

[a]Basic grant amounts are the sum of those the state reported allocating to their districts and do not include amounts states reserved for administration or school improvements.

[b]Percentage differences calculated as follows: 100* [(poverty share - dollar share)/((poverty share + dollar share)/2)].

Source: GAO Analysis.

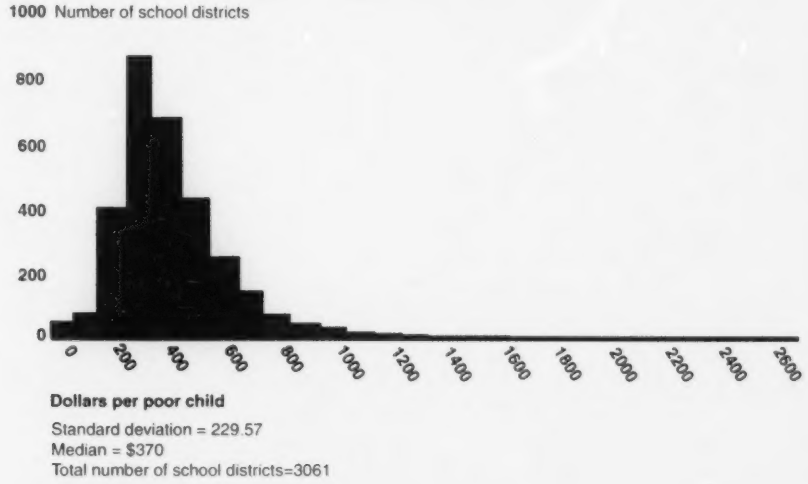
The shares of basic grant dollars that states received differed from their shares of poor children due to the factors in addition to the number of poor children that are included in the federal funding formula: state per-pupil expenditures, the small state minimum provision and the hold-harmless provision. For example, Vermont, Wyoming, New Hampshire, and Alaska, which each received much larger basic grants per poor child than the rest of the states, are each also among the small-population states that benefited from the small state minimum provision in the 1999-2000 school year. Another of the formula factors — the state per-pupil expenditures factor — also had an important impact on the distribution of Title I dollars to states. States with higher percentages of poor children would be expected, all else being equal, to have lower tax bases and tend to have lower state education expenditures. As a result, states with higher percentages of poor children tended to receive smaller basic grant amounts per poor child because Title I allocations are based, in part, on the amount a state spends on education. We found that of the 17 states with more than 20 percent of their children living in poverty in 1997, all but 4 had basic grant dollars per poor child below the national average in the 1999-2000 school year.

Title I Allocations Were Made in Accordance With Numbers of Poor Children, But Amounts Per Poor Child Differed Across School Districts

An examination of the allocations that states reported making to their school districts in the 1999-2000 school year shows that school districts, like states, as a whole received Title I allocations that were in accordance with the numbers of poor children they had enrolled, but that actual funding per poor child varied considerably among individual school districts with similar numbers of poor children.[18] For example, among districts with between 101 and 250 children eligible for free or reduced-price lunch, the median basic grant funding per poor child was $370, but ranged from $0 to $2,573. Concentration grants among school districts with similar numbers of poor children also varied. For example, among districts receiving concentration grants with between 101 and 250 children eligible for free or reduced-price lunch, the median concentration grant funding per poor child was $63, but ranged from $1 to $3,547. Figures 2 and 3 illustrate these findings. The variation illustrated for the national level in figures 2 and 3 is similar to the type of variation that occurs within states as well. In other words, within states, individual districts with similar numbers of children received different allocation amounts.

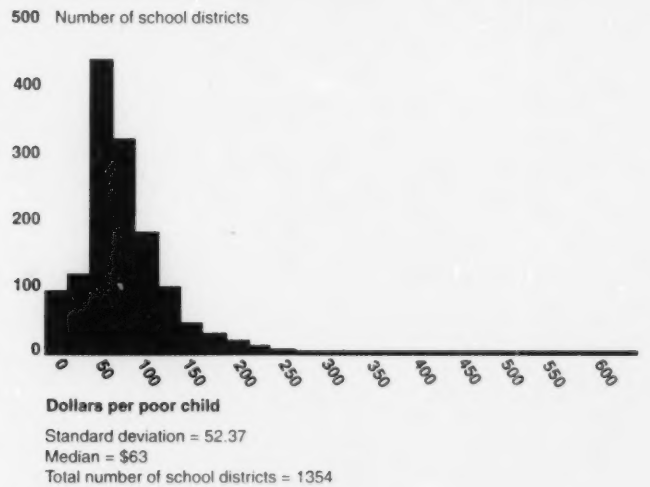
[18]Poor children in these analyses are children eligible for free or reduced-price lunch. We used subsidized lunch eligibility for this analysis because these data are available for a greater number of school districts than are Census data.

Figure 2: Basic Grant Dollars Per Poor Child in Districts With 100 to 250 Children Eligible for Free or Reduced-Price Lunch, 1999-2000



Source: GAO Analysis.

Figure 3: Concentration Grant Dollars Per Poor Child in Districts with 100-250 Children Eligible for Free or Reduced-Price Lunch, 1999-2000



Source: GAO Analysis.

Not only did districts with similar numbers of poor children receive different allocations per poor child, but also in some cases, school districts

with larger numbers of poor children received less funding per poor child than districts with smaller numbers of poor children. For example, in California, one school district with 961 poor children received a basic grant of $363 per poor child, while a school district with 13 poor children received $1,656 per poor child.[19] Concentration grants for these two districts varied similarly and similar examples of variation occurred in most states. Differences in Title I funding per poor child among school districts is due, in part, to hold-harmless provisions.

Allocations Among Urban and Rural School Districts Vary Slightly From Their Numbers of Census Poor Children

The pattern of Title I grant distributions in terms of numbers of poor children among urban and rural school districts in the 1999-2000 school year is to some extent dependent upon the measure of poverty that is used, as shown in table 2.[20] When Census data are used as the measure of poverty, both urban and rural school districts as a whole received shares of both basic and concentration grants roughly proportional to their share of poor children, with some small differences.[21] However, when eligibility for free or reduced-price lunch is used as the measure of poverty, urban districts received shares of both basic and concentration grants that were greater than their share of poor children.

[19]In these examples, poverty was measured as eligibility for free or reduced-price lunch.

[20]In general, there is a strong relationship at the district level between the number of children eligible for free and reduced-price lunch and the number of children denoted by the Census as living in poverty. However, among urban districts that relationship is closer to a one-to-one relationship than in rural districts. In rural districts, the relationship approaches a two-to-one relationship, that is two children are identified as eligible for free or reduced-price lunch for every one child denoted by the Census as living in poverty.

[21]Education classifies school districts into eight location types. These are: (1) large central city, (2) mid-size central city, (3) urban fringe of large city, (4) urban fringe of mid-size city, (5) large town, (6) small town, (7) rural-outside a metropolitan area, and (8) rural-inside a metropolitan area. In our analysis, classes (1) and (2) are considered "urban," and classes (7) and (8) are considered "rural."

Table 2: Distribution of Basic and Concentration Grant Allocations Among Urban and Rural School Districts, 1999-2000 School Year

Basic grants	Percentage share of basic grants allocated	Percentage share of Census poor children	Percentage share of children eligible for free or reduced-price lunch
Urban districts	48	48	44
Rural districts	16	15	16
Other districts	36	37	40
Total	**100**	**100**	**100**
Concentration grants[a]	**Percentage share of concentration grants allocated**	**Percentage share of Census poor children**	**Percentage share of children eligible for free or reduced-price lunch**
Urban districts	58	56	53
Rural districts	13	14	14
Other districts	29	30	33
Total	**100**	**100**	**100**

Note: Analysis considered only those districts for which both free and reduced-price lunch and Census poverty data were available. Four states, Florida, Hawaii, Maryland, and West Virginia, with state or county-based school districts, were excluded from the analysis because of the imprecision of their location codes.

[a]Concentration grant analysis includes only those districts that are eligible for concentration grants and the children in those districts.

Source: GAO Analysis.

Even small differences between shares of grants and shares of poor children resulted in per child dollar differences between urban and rural districts. For example, when Census data are used as the measure of poverty, rural districts overall had a higher median basic grant amount per poor child ($705) than did urban districts ($610). This resulted, in part, because the share of basic grants that rural districts received was 1 percentage point greater than their share of poor children while the share of basic grants that urban districts received was equivalent to their share of children. Because the pattern of Title I grant distributions among urban and rural school districts is dependent on the measure of poverty used, it is worth noting that currently all states base their allocations on Census data for areas with populations greater than 20,000 residents, and the overwhelming majority of states (41) base their allocations on Census data rather than subsidized lunch for areas with populations smaller than 20,000 residents.

Funding Per Poor Child for Charter Schools Is Less Than That for Other Districts Comparable in Size

Title I allocations to charter schools that are independent school districts are lower than per-pupil allocations to other similarly sized school districts.[22] Charter schools are not included in Education's Title I formula calculations, but are guaranteed funding on an equal basis with other school districts. Consequently, those states with independent charter schools must reallocate resources from other school districts to these schools. In the 1999-2000 school year, 14 states and the District of Columbia had operating charter schools that were considered independent school districts; 533 of these 734 charter schools received basic grants.[23] In these states combined, charter school districts that received Title I grants had almost 6 percent of the children receiving free or reduced-price lunch and received less than 5 percent of the basic grant funding that was distributed to districts with fewer than 2,500 students. Average basic grant funding per poor child in the charter school districts was $365 and was $481 in the other school districts.

School Districts Use the Flexibility of the Title I Program When Allocating Funds to Eligible Schools, and the Majority of Title I Funds go to High-Poverty Schools

When school districts allocate funds to individual schools, they use the flexibility of the Title I program to distribute funds where they believe the need is greatest and in ways that they believe best provides needed activities efficiently and consistently. Unlike school district allocations, which are based on numbers of poor children, allocations to individual schools are required by law to be based on the percentages of poor children within grade span or within the district as a whole.[24] From our national survey of school districts, we estimate that a majority of school districts (63 percent) prioritized Title I funding to eligible primary or elementary grades before funding other grade spans, while an estimated 23 percent of school districts prioritized funds to schools with higher percentages of poor children, regardless of grade span. (See fig. 4.) A

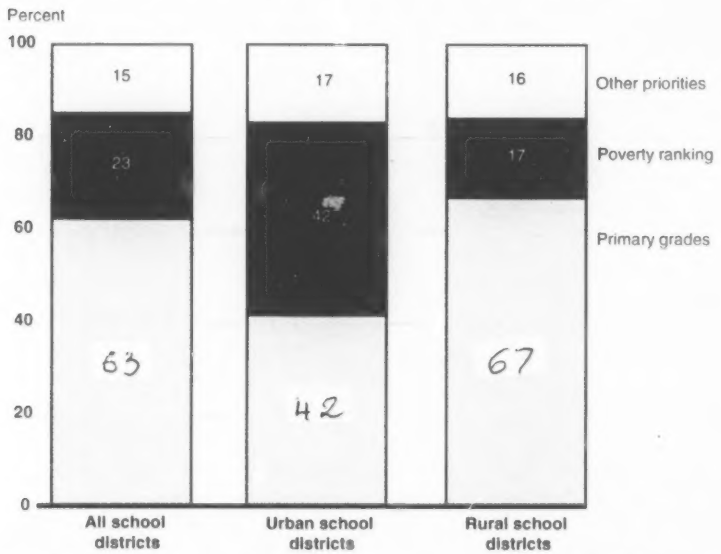
[22]The enrollments of the charter schools ranged to a high of 2,099 students. Therefore, actual allocations to charter schools were compared with those for other school districts with fewer than 2,500 students. Census poverty data are unavailable for charter schools, so all analysis used free or reduced-price lunch eligibility as the measure of poverty. Charter schools that are independent school districts in Wisconsin and Illinois were not considered in the analysis as the three such charter schools in Illinois were not funded in 1999-2000, and only one of the two such charter schools in Wisconsin was funded.

[23]Along with the District of Columbia, the 14 states were: Arizona, California, Delaware, Illinois, Louisiana, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, Ohio, Pennsylvania, Texas, and Wisconsin.

[24]In addition, districts must fund all schools with poverty rates greater than 75 percent before funding any school with a poverty rate less than 75 percent.

similar pattern was found among rural districts, of which an estimated 67 percent targeted funds to needy primary schools. In contrast, equal percentages of urban school districts targeted-funds to primary schools (an estimated 42 percent) and to schools with higher percentages of poor children (an estimated 42 percent).[25]

Figure 4: Title I Allocation Priorities of School Districts by Location



Note: School district officials self-identified their districts as urban, rural, suburban, or mixed. As a result, the urban and rural designations in figure 4 are not comparable to those in table 2.

Source: GAO Analysis.

In addition to distributing funds to individual schools, we estimate that over half the districts (58 percent) reserve at least some of their Title I grant, typically no more than 10 percent, for administration or other district activities. An estimated 61 percent of districts that reserve funds for such purposes do so because they believe it is more efficient or promotes consistency across schools in the district. Districts use the reserved funds for such activities as professional development for

[25]In responding to our survey, school district officials self-identified their districts as urban, rural, suburban, or mixed.

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teachers, parental involvement programs, preschool and summer school programs, and before and after school enrichment activities.[26]

In addition to the flexibility districts are allowed under the Title I regulations, a district may apply for a waiver from the regulations if a district finds that it cannot use Title I funds to best serve the needs of its schools within the existing regulations.[27] Waivers are used most commonly to allow districts to (1) serve schools of the same grade span without regard for their rank order in terms of poverty or (2) allow lower-poverty schools to use Title I funds in schoolwide programs rather than for specific students, a practice otherwise allowed only in schools with greater than 50 percent of their children living in poverty.

Because districts have flexibility in making Title I allocations to schools, and not all schools with poor children receive funds from their districts, the amount of Title I funds that individual schools receive per poor child differs among schools. Only three states, California, Mississippi, and Georgia, were able to provide us with electronic information on enrollment, free and reduced-price lunch eligibility, and Title I dollar amounts allocated to individual schools. Analyses of these three states' data show that in the 1999-2000 school year, among the schools receiving Title I funds, schools with higher percentages of poor children received a larger percentage of the funds than schools with lower percentages of poor children, as shown in table 3. Although these findings are based on one year of data from only three states, they are consistent with Education's findings that in the 1997-98 school year, nationally 66 percent of schools receiving Title I funds had more than 50 percent of their children eligible for free or reduced-price lunch, and 35 percent of schools receiving Title I funds had at least 75 percent of their children eligible for free or reduced-price lunch.

[26]Confidence intervals for these estimates are provided in appendix I.

[27]For some districts, the U.S. Department of Education approves these waivers directly; however, under the "Ed-Flex" program, Education has delegated this authority to 12 state education agencies.

Table 3: Distribution of Title I Schools, Title I Funds, and Children in Title I Schools by School's Percentage of Poor Children, 1999-2000 School Year

School poverty level	Percentage of Title I schools	Percentage of Title I funds allocated to schools	Percentage of poor children in Title I schools[a]
California			
0-34% poverty	15	6	4
35-49% poverty	15	9	9
50-74% poverty	31	29	30
75-100% poverty	39	56	57
Total	**100**	**100**	**100**
Georgia			
0-34% poverty	6	2	3
35-49% poverty	18	13	14
50-74% poverty	44	43	44
75-100% poverty	33	42	39
Total	**100**	**100**	**100**
Mississippi			
0-34% poverty	0.4	0.3	0.2
35-49%	9	6	7
50-74% poverty	38	31	33
75-100% poverty	52	63	59
Total	**100**	**100**	**100**

Note: Amounts may not sum to 100 percent due to rounding.

[a]Poor children are defined as children eligible for free or reduced-price lunch.

Source: GAO analysis.

Allocations Do Not Fully Adjust to Geographic Shifts in the Number of Children From Low-Income Families

When the number of poor children from low-income families shifts between states, Title I allocations do not fully adjust in response.[25] More frequent updates of Census poverty data over the past decade have provided Education the data it needs to adjust Title I formula calculations to shifts in poverty more quickly than it could in the past. However, recent appropriations hold-harmless provisions and the small state minimum provision in the formula have limited the extent to which Title I allocations can shift at all, even when Education has data indicating that shifts in poverty have occurred. Even if these rules were changed, allowing formula calculations to be based more completely on poverty, the

[25]This shift could not be examined at the school district level because Education did not generate school district-level allocation amounts until the 1999-2000 school year.

remaining lags in Census poverty data would continue to prevent Title I formula calculations from fully adjusting to shifts in poverty.

When Poverty Has Shifted Among States, Allocations Have Not Fully Adjusted

To the extent that the number of poor children among the states has shifted, Title I funding has not completely adjusted in response. For example, in 1980, California had 9 percent of the nation's poor children and received 10 percent of all Title I dollars. By 1997, California had 16 percent of the nation's poor children, but received just 12 percent of all Title I dollars. This type of disparity has occurred in a number of states. In 1997, 33 states received Title I allocations that differed from their shares of poor children by more than 10 percent.

Census Is Updating Poverty Data More Frequently

A lack of updated poverty data contributed to the mismatch between poverty and funding over the last two decades. Education relied on 1980 decennial Census data to make allocations from 1984 to 1993, at which point Education began using 1990 decennial Census data to adjust allocations. As shown in table 4, since 1990, the lag in poverty data has decreased. This decrease occurred, in part, because in 1994, the Congress authorized the Census Bureau to update the data more frequently.

Table 4: Use of Poverty Updates in Title I Formula Calculations

Year of decennial poverty data or update	School year(s) in which updated data were used in formula calculations
1979	1984-85 through 1992-93
1989	1993-94 through 1996-97
1993	1997-98 through 1998-99
1995	1999-2000 through 2000-01
1997	2001-02

Source: GAO Analysis.

Hold-Harmless and Small State Minimum Provisions Limit Shifts in Title I Allocations Despite Updated Data

Although the Census updates provided Education with more timely poverty estimates, the hold-harmless and small state minimum provisions limited the extent to which Title I formula allocations could change in response. These provisions limit the extent to which Title I grants are reduced for districts and small-population states with declining numbers of poor children. As a result, funds are not sufficient to provide "full" formula amounts to districts and states with increasing numbers of poor

children.[29] Because of the effects of the hold-harmless and small state minimum provisions, between school years 2000-01 and 2001-02, holding other things constant,[30] most states with increased numbers of poor children would have received a decreased Title I allocation per poor child, while most states with decreased numbers of poor children would have received an increased Title I allocation per poor child.[31] States with increased numbers of poor children would have lost an average of $25 per poor child under the basic grant and $10 per poor child under the concentration grant.[32] States with decreasing numbers of poor children between these 2 years would have gained $23 per poor child under the basic grant and $4 per child under the concentration grant.[33]

While the hold-harmless and, to a lesser extent, small state minimum provisions create imbalances between poverty and funding, in the absence of these provisions, unavoidable lags in poverty data would prevent Education from fully adjusting Title I allocations to shifts in poverty.

[29]The effect of hold-harmless is important if the amount of Title I funds remain the same, but if funds are increased the impact of the hold-harmless is limited.

[30]This analysis holds constant at the 2001-02 levels, the total funding, the hold-harmless rule and the per-pupil expenditure factor.

[31]The definition of poor child here is the poverty factor used in the formula that includes Foster, Neglected, TANF, and Delinquent children with the Census poverty estimates.

[32]School districts in states with growing poverty that were also recipients of the small state minimum are nevertheless much better off. While their grant amount per poor child would have fallen (due to a proportionally more rapid increase in their number of poor children than in the increase in their grant amount), the amount per poor child of such states still exceeds that of states not benefiting from the small state minimum.

[33]For purposes of comparison, the average grant per poor child in 2001 is $679 for basic grants and $149 for concentration grants.

Allocations Do Not Encourage States To Target Their Own Funds To Children From Low-Income Families

Title I allocations do not encourage states to target their own funds to children from low-income families. Our review of the Title I statute and regulations found no formal monetary, statutory, or regulatory incentives for states to target their funds in this way. In our interviews with Title I directors in each of the 50 states, only four reported that they have programs for disadvantaged children that model their eligibility criteria on the Title I program. Furthermore, our study[34] based on 1991-92 school year data found large differences in the extent to which state funding was targeted to school districts on the basis of poverty criteria, indicating that states were not systematically following the allocation model of the Title I program.

The incentive grant, if funded, could provide an incentive for states to spend more of their own dollars. However, the grant would not encourage states to target their own funds to children from low-income families. In addition, the amount of money that could be provided through an incentive grant is not likely to be sufficient to create changes in states' behaviors.

Using Less Restrictive Hold-Harmless Provisions, Revising Grant Formulas, or Raising Eligibility Threshold Could Shift Funds Toward Poorer Districts and/or Reduce Funding Variations Among Districts

A number of policy options could affect the extent to which Title I funds are allocated to states and school districts with greater numbers and percentages of children from low-income families. First, using a less restrictive hold-harmless provision would reduce the variation in funding among school districts with similar numbers and similar percentages of poor children and allocate more funding to states with more rapidly growing numbers of poor children. Second, funding targeted grants and raising the basic grant eligibility thresholds would each shift funding toward districts with higher percentages of poor children and away from districts with lower percentages of poor children. Third, replacing the measure of state per-pupil expenditures with an alternative cost indicator would also have the effect of shifting funding to districts with higher percentages of poor children and reducing the variation in funding among districts with similar percentages of poor children. The effect of such changes would depend on the appropriations provisions. The effect of the changes would also depend on adjustments to the formula-calculated amounts made by state officials. Each policy option involves trade-offs between the competing goals of providing similar funding amounts to

[34] *School Finance: State and Federal Efforts to Target Poor Students* (GAO/HEHS-98-36, Jan. 28, 1998).

districts with similar numbers and percentages of poor children and providing stable funding to districts with rapidly declining numbers and percentages of poor children. Without increases in total funding, each change also would increase funds for some districts while decreasing funds for others.

Using Less Restrictive Hold-Harmless Rules Would Decrease the Variation in Funding Among Districts With Similar Numbers and Percentages of Poor Children

Different hold-harmless rules affect the extent to which Title I funding is allocated on the basis of numbers of poor children. The less restrictive the hold-harmless rules are, all else equal, the more Title I funding would be allocated on the basis of numbers of poor children. We considered four possible hold-harmless rules. In order from most to least restrictive, they were

- a 100-percent hold-harmless rule (districts receive 100 percent of their previous year's allocation);
- the school year 2001-02 hold-harmless rule (districts guaranteed the larger of either their previous year's allocation or the amount they would have received had the authorizing statute's hold-harmless rule been in effect);
- the authorizing statute's hold-harmless rule (districts receive 85, 90, or 95 percent of the previous year's allocation, depending on the percentage of children in the district who are eligible under the Title I formula); and
- no hold-harmless rule (districts receive allocations based on current application of the Title I formula with no regard to the previous year's allocation).

Using a less restrictive hold-harmless rule would not noticeably redistribute funding between school districts with large and small numbers of poor (formula) children. However, less restrictive hold-harmless rules would substantially reduce the funding variation among the smallest districts with similar numbers of poor children. Disparities in funding are greatest under the 100-percent hold-harmless rule, less under the 2001-02 rule, further reduced under the authorizing statute and would

be the least if there were no hold-harmless, as shown in table 5 for both small and large districts, in terms of their numbers of formula children.[35]

Table 5: Percentage Differences in Average Funding Variation Under Alternative Hold-Harmless Rules Compared With a 100-Percent Rule

Dollars per poor child

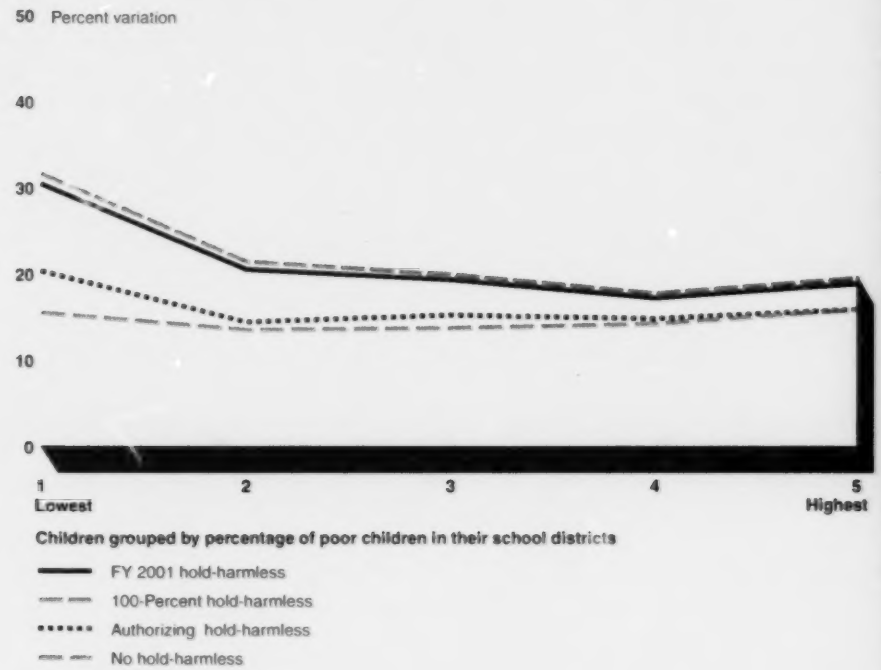
Hold-harmless rule	Smallest districts (the 10,929 districts with up to 643 formula children each)	Largest districts (the 29 districts with more than 26,976 formula children each)
100-Percent rule		
Average funding	$841	$814
Average variation	$277	$213
2001-02 rule		
Average variation	$270	$209
Percentage difference	-2%	-2%
Authorizing statute		
Average variation	$172	$205
Percentage difference	-38%	-4%
No hold-harmless		
Average variation	$130	$202
Percentage difference	-53%	-5%

Source: GAO Analysis.

Using a less restrictive hold-harmless rule would also have the effect of reducing variation among districts with similar percentages of poor children. (See fig. 5.)

[35]For this analysis, school districts were rank-ordered on the basis of their numbers of low-income children and divided into five groups, or quintiles, each containing approximately 20 percent of all low-income children. Districts with the smallest number of children were in the first group and districts with the greatest number of children were in the fifth group. The size and number of the school districts in each group differ. For example, the school districts in the first group have numbers of poor children that range from 1 to 643 and the group contains nearly half of all districts, while the school districts in the fifth group have numbers of such children ranging from 26,976 to 303,122 and this group contains 6 percent of all districts. Also, differences in funding among districts within each of the five groups are measured by the standard deviation of the funding per child.

Figure 5: Variation in Funding Per Child Under Alternative Hold-Harmless Rules (Districts Grouped by Percentage of Poor Children)



Source: GAO Analysis.

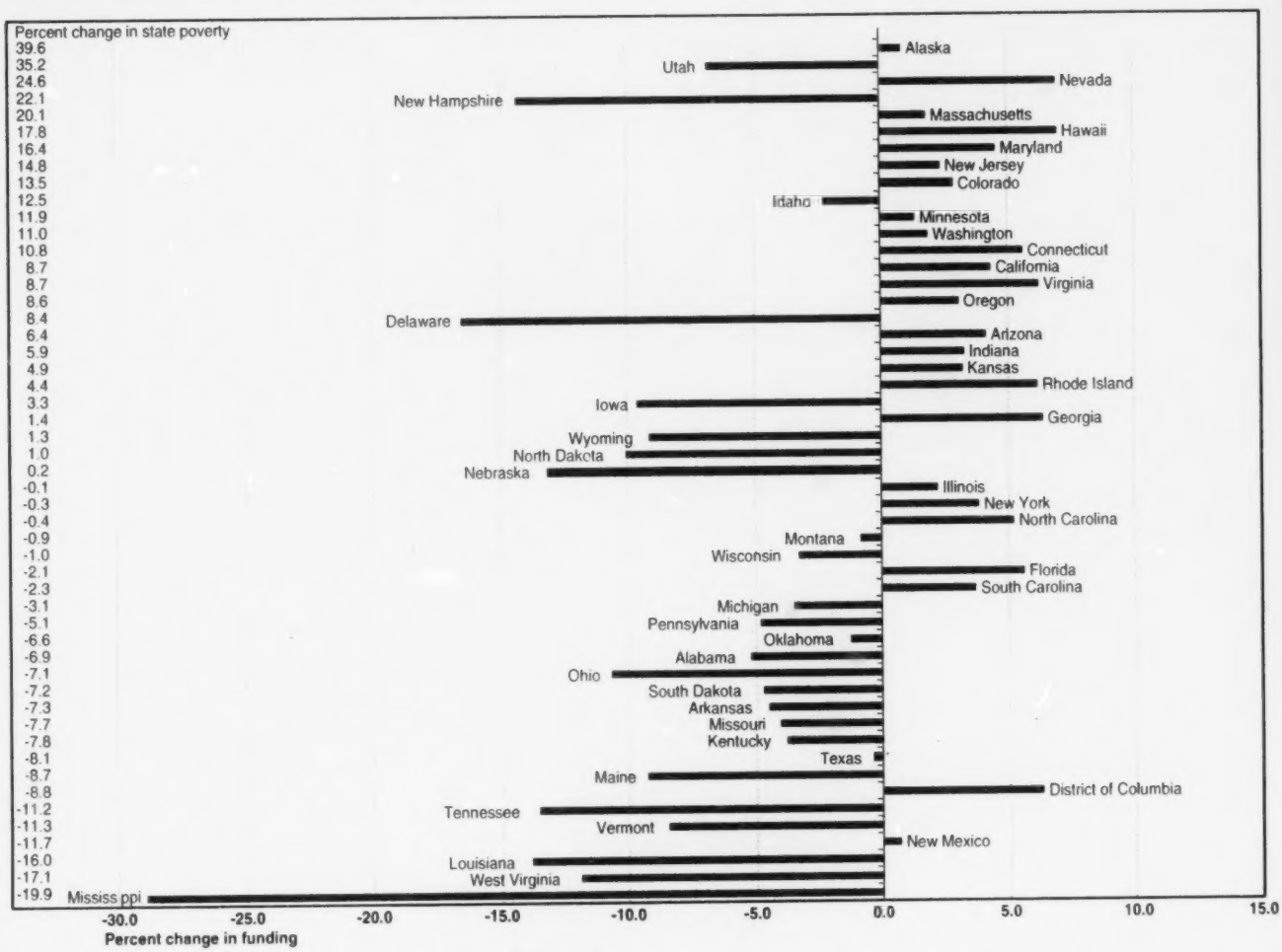
Using a less restrictive hold-harmless provision distributes more funds to high-growth school districts and accordingly to high-growth states. The effect of using a less restrictive hold-harmless rule would be to increase the responsiveness of Title I funding to the growth in numbers of poor children in states. In figure 6, states are rank-ordered based on the growth in the number of formula-eligible children between school years 2000-01 and 2001-02.[36] Figure 6 shows the percent change in funding that would have resulted had no hold-harmless rule been in effect. Under the no hold-harmless scenario, 12 of the 15 states with the highest growth in low-income children would have received more funding and 13 of the 15

[36]This represents a 2-year change in the number of low-income children. School year 2000-01 used poverty estimates for calendar year 1995, and school year 2001-02 used estimates for 1997.

slowest growth states would have received less.[37] Appendix II shows the data on which figure 6 is based.

[37]Using a less restrictive hold-harmless rule could also increase the volatility of school district funding, especially among small districts for which Census estimates of poor children contain substantial statistical error.

Figure 6: Percentage Change in Funding With No Hold-Harmless Rule (States Ranked by Percentage Growth in the Number of Poor Children)



Source: GAO Analysis.

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Distributing Funds Through the Targeted Grants Would Increase the Extent to Which Title I Funds Are Allocated to Areas With High Numbers and Percentages of Poor Children

Funding targeted grants instead of concentration grants would provide noticeably more Title I funds to districts with both higher numbers and percentages of poor children and reduce funding for districts with lower numbers and percentages of poor children. Districts are eligible for concentration grants if they have more than 6,500 poor children or the number of poor children is more than 15 percent of the district's school-age children. Concentration grants are allocated to eligible districts based on their numbers of poor children. In contrast, districts would be eligible for targeted grants if they had at least 10 poor children and these children accounted for at least 5 percent of their school-age children. As the number and percentage of poor children in the district increase, the targeted grant amount would increase both in absolute dollars and proportionally to other districts

In the 2001-02 school year, districts with the highest percentages of poor children received $864 per poor child compared with $758 per poor child in districts with the lowest percentages of poor children. If targeted grants had been funded instead of concentration grants, the funding for districts with the highest percentages of poor children would have increased by 5.5 percent, to $912 per poor child, while the funding for districts with the lowest percentages of poor children would have decreased by 5.7 percent, to $714, as shown in table 6. Table 6 also shows that funding targeted grants would have a similar effect on districts with larger and smaller numbers of poor children.

Table 6: Funding Per Poor Child Under Current Law and Under a Policy Option That Funds Targeted Grants Instead of Concentration Grants

Poverty group by percentage of children						
Formula option	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)	Ratio (highest to lowest)
2001 formula-calculated amount						
Dollars per poor child	$758	$821	$826	$865	$864	114%
Formula-calculated amount with targeted grant						
Dollars per poor child	$714	$808	$820	$877	$912	128%
Percentage difference	-5.7	-1.6	-0.7	+1.4	+5.5	
Poverty group by numbers of children in poverty						
Formula option	Lowest (1 to 643 formula children)	Low (643-2,020 formula children)	Medium (2.021 to 6,698 formula children)	High (6,709 to 26,844 formula children)	Highest (26,976 to 303,122 formula children)	Ratio (highest to lowest)
2001 formula-calculated amount						
Dollars per poor child	$842	$797	$784	$821	$814	97%
Formula-calculated amount with targeted grant						
Dollars per poor child	$815	$785	$771	$812	$946	116%
Percentage difference	-3.1	-1.6	-1.6	-1.1	+16.3	

Source: GAO Analysis.

Alternative Cost Indicator Would Direct More Funding to Districts With Higher Percentages of Poor Children and Reduce Funding Disparities Among These Districts

The per-pupil expenditure factor was originally included in the Title I formulas to take into account cross-state differences in the cost of providing education services. While per-pupil expenditures reflect the cost of providing education services to some extent, expenditures are also explained by other factors not related to costs. For example, states with high-income taxpayers may spend more on education than those whose taxpayers have lower incomes.[38] In addition, spending differences may result from differences in the "willingness" of a state's taxpayers to fund public education.[39]

One alternative cost measure is a geographical cost-of-education index developed for the Department of Education's Office of Educational Research and Improvement.[40] The purpose of this experimental cost index is to make cost comparisons based on the cost of teachers, non-teaching school personnel, and other factors that may affect costs, but which are beyond the ability of local officials to control.[41] The index includes cost factors for both states and school districts, unlike earlier experimental measures that had only cross-state cost factors. We use these cost factors

[38]Studies of state spending on education (and most other public services as well) consistently show that education spending is strongly related to the income of state and local taxpayers. For this reason, the use of per-pupil expenditures as an indicator of differences in the cost of delivering educational services has been severely criticized in the past.

[39]W. Riddle and R. Apling, Education for the Disadvantaged: Allocation Formula Issues in ESEA Title I Reauthorization Legislation, Congressional Research Service #RL-30492, March 20, 2000, pages 14-17. For a general discussion of educational costs and expenditures, see U.S. Department of Education, National Center for Education Statistics, A Primer for Making Cost Adjustments in Education, NCES 2001–323, by W.J. Fowler, Jr. and D.H. Monk.

[40]See *Geographical Variations in Public Schools' Costs*, National Center For Education Statistics, Working Paper No. 98-04, February 1998 for a description of the cost factor and its methodology. We used estimates for school year 1993-94, the latest available at the time of this report.

[41]For example, cost-of-living and other "amenity" factors, such as climate, geography, and area crime rates, could result in differing teacher salaries when these factors differ significantly among school districts. The inclusion of "amenity" factors represents a departure from earlier experimental models that focused primarily on differences in teacher experience and education. While controlling for amenity factors that may affect the salaries necessary to attract teachers to specific locations is, in principle, appropriate, the measurement methodology behind these attempts is subject to a variety of statistical specifications that could lead to varying results. In addition, we did not investigate the quality of the data used in these models. For these reasons, we have labeled these estimates as experimental and do not endorse any particular approach.

for illustrative purposes only and do not necessarily endorse any particular measure.

The intent of replacing state per-pupil expenditures with either a state or district-level cost-of-education factor is to more accurately reflect educational costs; however, as a by-product, doing so would shift funding somewhat toward districts with higher percentages of poor children. If the state per-pupil expenditure factor had been replaced with a cost factor in the 2001-02 school year, districts with the highest percentages of poor children would have seen an increase in funding of approximately 3 percent, while districts with the lowest percentages of poor children would have seen a decrease in funding of 2 to 3 percent (see table 7). If in addition, the authorizing statute's hold-harmless rules had been adopted, funding to districts with the highest percentages of poor children would have increased by about 5 percent while funding in districts with the lowest percentages of poor children would have decreased by about 5 percent.[42]

[42]The effect of increased targeting to districts with high percentages of poor children occurs because the correlation between per-pupil spending and the percentage of poor children and the correlation between the cost factor and the percentage of poor children differ. Because these correlations can change from one year to the next, the targeting pattern in future years may differ from that shown here.

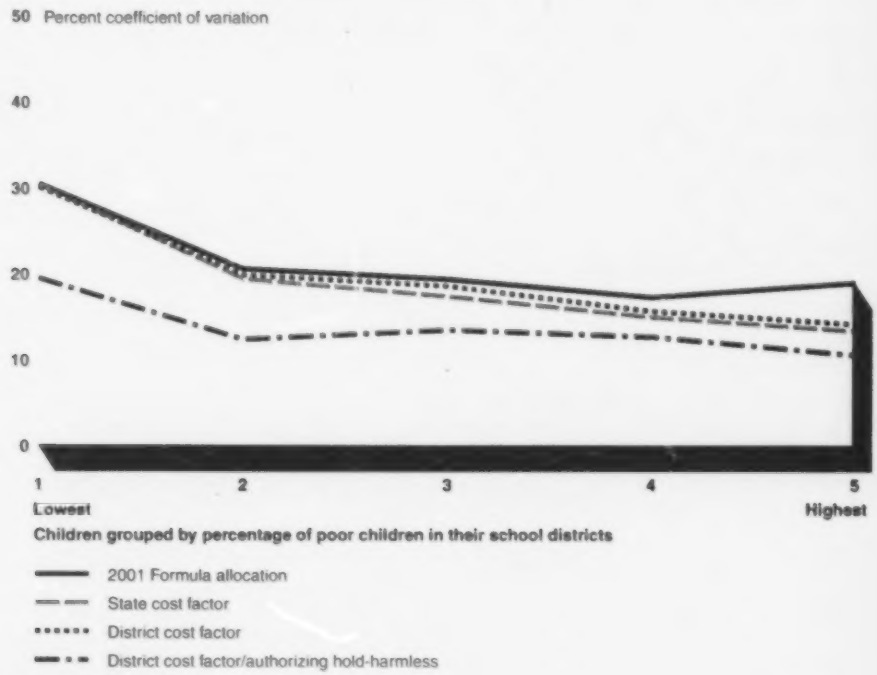
Table 7: Funding Per Poor Child Under Current Law and Formula Options That Replace State Per-Pupil Expenditure Factor With a Teacher Cost Factor

Poverty group by percentage of children in poverty	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)	Ratio (highest to lowest)
2001 formula allocation						
Dollars per child	$758	$821	$826	$865	$864	114%
State cost factor						
Dollars per child	$737	$815	$825	$866	$892	121%
Percentage difference	-2.7	-0.8	0.0	0.1	3.3	
District cost factor						
Dollars per child	$746	$815	$821	$866	$887	119%
Percentage difference	-1.6	-0.8	-0.5	0.1	2.7	
District cost factor & authorizing hold-harmless						
Dollars per child	$716	$818	$818	$873	$905	126%
Percentage difference	-5.4	-0.5	-1.0	0.9	4.7	

Source: GAO Analysis.

The more substantial effect of replacing the state per-pupil expenditure factor, however, would be to reduce the variation in funding among districts with higher percentages of poor children (see figure 7). With the educational cost factor, the variation in funding among districts with higher percentages of poor children would be reduced from 19 percent to 13 percent, a reduction of 30 percent. In contrast, the variation in funding among districts with low percentages of poor children would be largely unaffected. However, if the current hold-harmless rules were also replaced with the authorizing statutes rules, very substantial reductions in funding disparities would result among all school districts. Funding variations would be cut by more than half between the highest and lowest poverty districts.

Figure 7: Comparison of the Variation in Funding Per Child Across School Districts Under Formula Options That Replace State Per-Pupil Spending With a Cost of Education Factor (Fiscal Year 2001)



Source: GAO Analysis.

Raising the Poverty Threshold for Eligibility to Qualify for Basic Grants Would Potentially Affect Large Numbers of Districts With Low Percentages of Poor Children

Title I grants have sometimes been criticized because the poverty threshold for basic grant eligibility is so low and that nearly all districts can participate in the program.[43] It is often noted that by funding nearly all districts, less funding is available for high-poverty districts. One policy option is to raise the basic grant eligibility threshold, making fewer districts eligible. With fewer districts eligible, the remaining districts would receive more funds per poor child, if total funding were to remain constant. Table 8 shows how increasing the current 2 percent poverty threshold to poverty thresholds of 5 and 10 percent, respectively, would have this effect. For example, a 10 percent threshold would result in 26 percent of all districts, which contain 7.7 percent of all formula children, becoming ineligible. This would allow funding per child in the remaining districts to increase by 8.3 percent or $57. The effects of these thresholds are shown on a state-by-state basis in table 9.

Table 8: Number of Eligible School Districts, Children, and Funding Per Child Under Alternative Eligibility Thresholds

	Alternative Basic-Grant Eligibility Threshold		
	Current basic grant 2% eligibility threshold	5% Eligibility threshold	10% Eligibility threshold
Number of ineligible school districts (below eligibility threshold)	168	1,148	3,527
Percentage of all school districts	1.3%	8.6%	26.3%
Number of children in ineligible districts (district doesn't meet eligibility threshold)	7,141	130,144	779,684
Percentage of all formula children	0.07%	1.3%	7.7%
Eligible district's average school year 2001 basic allotment per eligible formula child	$684	$693	$741
Percentage increase in funding to remaining eligible districts resulting from increase in eligibility threshold	NA	1.3%	8.3%

Note: Numbers and percentages exclude districts that would be ineligible because they have fewer than 10 formula children.

Source: GAO Analysis.

[43]To qualify, a district must have a poverty rate of more than 2 percent and at least 10 children in poverty.

Table 9: Number of Ineligible Districts, Poor Children, and Title I Funding They Would Receive Under Alternative Eligibility Thresholds

	5% Eligibility threshold			10% Eligibility threshold		
State	Number of districts made ineligible	Children in ineligible districts	Total FY 2001 basic grant dollars reallocated from ineligible districts	Number of districts made ineligible	Children in ineligible districts	Total FY 2001 basic grant dollars reallocated from ineligible districts
Alabama	6	490	$368,973	8	4,458	$3,729,223
Alaska	0	0	$0	7	940	$776,674
Arizona	7	443	$324,165	20	14,348	$7,851,414
Arkansas	0	0	$0	5	984	$675,864
California	46	6,687	$4,000,328	166	55,800	$34,926,296
Colorado	5	1,610	$967,747	33	23,044	$13,893,702
Connecticut	59	4,871	$3,924,895	116	16,412	$13,273,760
Delaware	0	0	$0	1	224	$203,485
District of Columbia	0	0	$0	0	0	$0
Florida	0	0	$0	0	0	$0
Georgia	1	23	$14,542	6	20,004	$12,648,100
Hawaii	0	0	$0	0	0	$0
Idaho	2	64	$57,553	10	2,300	$1,494,645
Illinois	171	12,908	$9,831,050	386	44,267	$33,665,002
Indiana	28	3,260	$2,400,094	128	25,197	$17,963,907
Iowa	20	1,148	$1,020,095	128	10,395	$8,267,730
Kansas	9	760	$552,810	63	9,411	$6,437,589
Kentucky	2	285	$174,466	8	3,431	$2,145,994
Louisiana	0	0	$0	0	0	$0
Maine	12	467	$620,171	51	3,643	$3,936,535
Maryland	0	0	$0	7	33,679	$25,483,146
Massachusetts	77	6,068	$5,385,737	177	24,133	$20,302,292
Michigan	52	10,299	$9,577,340	161	40,335	$36,122,572
Minnesota	20	6,257	$4,299,630	103	31,867	$22,062,822
Mississippi	0	0	$0	0	0	$0
Missouri	16	4,840	$3,295,938	75	20,267	$14,583,945
Montana	1	23	$14,289	29	661	$522,560
Nebraska	14	1,884	$1,397,013	100	6,788	$5,642,142
Nevada	0	0	$0	2	1,074	$608,365
New Hampshire	27	1,618	$1,459,650	84	8,265	$7,315,072
New Jersey	169	12,890	$11,265,346	346	41,109	$35,640,073
New Mexico	2	494	$316,533	3	541	$341,780
New York	77	9,068	$7,796,900	223	48,460	$39,926,375
North Carolina	0	0	$0	1	1,788	$1,047,215
North Dakota	2	17	$14,578	21	1,099	$1,018,412
Ohio	107	12,624	$10,803,019	294	49,332	$40,399,218

State	5% Eligibility threshold			10% Eligibility threshold		
	Number of districts made ineligible	Children in ineligible districts	Total FY 2001 basic grant dollars reallocated from ineligible districts	Number of districts made ineligible	Children in ineligible districts	Total FY 2001 basic grant dollars reallocated from ineligible districts
Oklahoma	5	366	$295,932	39	6,841	$4,554,951
Oregon	4	580	$449,338	26	10,429	$7,873,530
Pennsylvania	61	9,522	$7,774,477	176	46,438	$37,347,170
Puerto Rico	0	0	$0	0	0	$0
Rhode Island	6	582	$468,957	23	6,187	$4,985,285
South Carolina	0	0	$0	3	1,380	$776,247
South Dakota	3	111	$100,455	20	926	$775,148
Tennessee	2	1,023	$644,205	7	6,622	$4,713,538
Texas	31	11,355	$7,457,363	110	51,933	$32,388,180
Utah	1	111	$67,570	10	17,050	$9,601,315
Vermont	20	701	$886,384	72	2,775	$3,597,152
Virginia	0	0	$0	17	29,989	$17,618,948
Washington	8	1,641	$1,052,712	52	26,901	$16,951,548
West Virginia	0	0	$0	0	0	$0
Wisconsin	74	5,018	$4,224,246	202	26,036	$21,483,181
Wyoming	1	36	$111,155	8	1,921	$2,221,161
Total	**1,148**	**130,144**	**$103,415,654**	**3,527**	**779,684**	**$577,793,262**

Source: GAO Analysis.

Most States Alter Formula-Calculated Amounts When Allocating Funds to Their School Districts

Changes to the Title I allocation formulas will change the amount of funds states receive and also would be expected to result in changes in the amounts districts receive; however, there are limits on how precisely changes in the formula can be expected to affect school districts because states alter the formula-calculated amounts. In the aggregate, relatively few poor children and Title I funds were associated with districts whose allocations differed widely from their formula-calculated amounts in the 1999-2000 school year. As a result, state adjustments did not appear to alter the overall extent to which available funding was allocated on the basis of the number of poor children. However, for some individual states and school districts, state adjustments were substantial.

When allocating the funds they receive from the federal government, states adjust for changes in school district boundaries and the creation of charter schools. In our work, we found that among the school districts operating in the 1999-2000 school year, there were more than 900 school districts, containing about 126,000 children eligible for free or reduced-price lunch and receiving about $79 million in Title I funds, that were not included in Education's formula calculations. In addition, states alter the formula-calculated amounts to adjust for the poverty measure used for

school districts in small areas, as well as to fund statewide activities and program administration. States are allowed to withhold up to 1.5 percent of their Title I funds for statewide activities and program administration, so this much variation from the formula-calculated allocations is expected.

Considering only the districts that were included in Education's calculations, we found that during the 1999-2000 school year 49 percent of the districts received total Title I grants that differed by more than 1.5 percent from the formula-calculated allocation; 16 percent of districts' allocations differed by more than 10 percent. Among the districts included in Education's calculations, over half of the Title I funds were allocated to districts whose allocation amounts differed from their formula calculations by no more than 1.5 percent. These districts also contained just over half of the poor children. Only about 5 percent of the funds were allocated to districts whose actual allocations differed from their formula calculations by more than 10 percent. These districts also contained about 5 percent of the poor children. (See table 10.)

Table 10: Distribution of Districts, Poor Children, and Title I Dollars by Extent of Difference Between District Allocations and Formula Calculations

	Districts with allocations differing from formula calculation by no more than 1.5%	Districts with allocations differing from formula calculation by between 1.5% and 10%	Districts with allocations differing from formula calculation by more than 10%	Total
Number of school districts	7,009	4,554	2,206	13,769
Percentage of school districts	51%	33%	16%	100%
Number of Census poor children	5,065,175	3,644,038	505,162	9,214,375
Percentage of Census poor children	55%	40%	5%	100%
Number of children eligible for free or reduced-price lunch	9,485,789	7,187,813	910791	17,584,393
Percentage of children eligible for free or reduced-price lunch	54%	41%	5%	100%
Formula-calculated dollar amounts	$4,150,777,359	$2,702,779,708	$401,904,928	$7,255,461,995
Percentage of formula-calculated dollars	57%	37%	6%	100%
Actual allocation dollar amounts	$4,129,794,331	$2,630,272,381	$348,916,755	$7,108,983,467
Percentage of actual allocations	58%	37%	5%	100%

Source: GAO Analysis.

The variation between actual allocations and the formula calculations is greater in some states than in others. There are some states, for example, Georgia, Louisiana, and South Dakota, where actual allocations to school districts are very close to the formula calculations. (See table 11.)

Table 11: Percentage of Poor Children and Percentage of Dollars Allocated to Districts Whose Allocations Differed From Formula Calculations by More Than 1.5 Percent

	Georgia	Louisiana	South Dakota
Percentage of districts with allocations differing from formula calculations by more than 1.5 percent	6	18	16
Percentage of Census poor children in districts with allocations differing from formula calculations by more than 1.5 percent	6	29	46
Percentage of Title I allocations received in districts with allocations differing from formula calculations by more than 1.5 percent	6	28	40

Source: GAO Analysis.

However, these states are the exception, as most states, including Delaware, North Dakota, and Maine, had many districts receiving very different allocations than the formula calculations. (See table 12.)

Table 12: Percentage of Poor Children and Percentage of Dollars Allocated to Districts Whose Allocations Differed From Formula Calculations by More Than 10 Percent

	Delaware	North Dakota	Maine
Percentage of districts with allocations differing from formula calculations by more than 10 percent	62	49	40
Percentage of Census poor children in districts with allocations differing from formula calculations by more than 10 percent	51	41	31
Percentage of Title I allocations received in districts with allocations differing from formula calculations by more than 10 percent	56	41	29

Source: GAO Analysis.

However, states do not appear to alter the overall extent to which available funding is allocated on the basis of the number of poor children. Table 13 shows for each state the percentage of its districts whose total Title I grants differed from their formula calculations by less than 1.5 percent, between 1.5 and 10 percent, and by more than 10 percent.

Table 13: Differences Between Actual Allocations and Formula Calculated Amounts, 1999-2000 School Year

State	Percentage of districts with grants within 1.5% of formula calculation*	Percentage of districts with grants between 1.5% and 10% of formula calculation	Percentage of districts with grants more than 10% from formula calculation	Total
Alabama	61.1	19.8	19.1	100.0
Alaska	28.3	34.0	37.7	100.0
Arizona	11.8	52.9	35.3	100.0
Arkansas	68.4	31.6	0.0	100.0
California	33.5	64.1	2.4	100.0
Colorado	71.6	19.3	9.1	100.0
Connecticut	41.6	27.7	30.7	100.0
Delaware	6.3	31.3	62.4	100.0
Florida	40.3	59.7	0.0	100.0
Georgia	94.4	5.6	0.0	100.0
Idaho	71.4	27.7	0.9	100.0
Illinois	69.5	14.4	16.1	100.0
Indiana	56.7	31.8	11.5	100.0
Iowa	39.8	41.5	18.7	100.0
Kansas	55.3	27.8	16.9	100.0
Kentucky	0.6	94.9	4.5	100.0
Louisiana	81.8	13.6	4.6	100.0
Maine	35.0	25.1	39.9	100.0
Maryland	29.2	70.8	0.0	100.0
Massachusetts	43.2	10.0	46.8	100.0
Michigan	66.0	16.6	17.4	100.0
Minnesota	71.2	20.2	8.6	100.0
Mississippi	76.5	12.8	10.7	100.0
Missouri	30.4	29.2	40.4	100.0
Montana	70.8	18.3	10.9	100.0
Nebraska	64.5	13.7	21.8	100.0
Nevada	58.8	41.2	0.0	100.0
New Hampshire	19.8	71.6	8.6	100.0
New Jersey	31.0	22.6	46.4	100.0
New Mexico	47.2	46.1	6.7	100.0
New York	28.5	70.6	0.9	100.0
North Carolina	43.6	54.7	1.7	100.0
North Dakota	18.0	33.5	48.5	100.0
Ohio	76.2	13.4	10.4	100.0
Oklahoma	32.5	23.2	44.3	100.0
Oregon	61.5	21.0	17.5	100.0
Pennsylvania	74.3	12.3	13.4	100.0
Rhode Island	36.1	16.7	47.2	100.0
South Carolina	44.2	47.7	8.1	100.0
South Dakota	84.3	8.7	7.0	100.0

State	Percentage of districts with grants within 1.5% of formula calculation[a]	Percentage of districts with grants between 1.5% and 10% of formula calculation	Percentage of districts with grants more than 10% from formula calculation	Total
Tennessee	67.2	24.1	8.7	100.0
Texas	56.0	43.2	0.8	100.0
Utah	70.0	17.5	12.5	100.0
Virginia	69.9	29.3	0.8	100.0
Washington	66.9	20.6	12.5	100.0
West Virginia	69.1	21.8	9.1	100.0
Wisconsin	6.4	89.9	3.7	100.0
Wyoming	29.2	31.3	39.5	100.0
National	**50.9**	**33.1**	**16.0**	**100.0**

Note: Hawaii and District of Columbia excluded, as they are single districts. Vermont excluded as Supervisory Unions, not districts, utilized for allocating funds.

[a]Includes those districts calculated by Education to receive $0.

Source: GAO Analysis.

Concluding Observations

Although Title I funding generally reflects the distribution of poor children, there are many instances of states, districts, and schools with either similar numbers or similar percentages of poor children receiving widely differing amounts of funding per poor child. These differences result, in part, from formula provisions that attempt to balance several, sometimes competing, goals. These goals include allocating funds based on the distribution of poor children, ensuring that states and districts are provided funding stability even in light of declining numbers of poor children, and addressing differences across school districts and states in the costs of providing educational services. Choosing among the policy options discussed in this report will entail, in part, weighing the goal of increased targeting with other goals. Enacting any of the policy options—using less restrictive hold-harmless provisions, funding targeted grants, using an alternative cost factor, or raising the eligibility threshold—would result in changes for many states and school districts in terms of their formula calculations. In addition, under any of these policy options, states and school districts would still have flexibility in making allocation decisions—flexibility that allows states and school districts to use these funds in a manner that they believe best meets the needs of disadvantaged children.

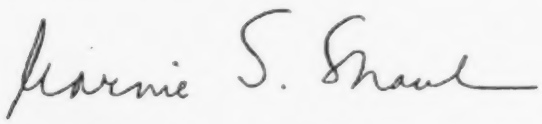
Agency Comments

In written comments on our draft report, the Department of Education generally agreed with the findings presented in the report. Education suggested that our report be updated to reflect the passage of the "No

Child Left Behind Act of 2001" and the fiscal 2002 appropriations act. Appendix III describes the impact of this legislation on the aspects of Title I discussed in the report. Education's written comments are printed in appendix IV.

In written comments on our draft report, the U.S. Department of Agriculture (USDA) said that the Food and Nutrition Service (FNS) has become increasingly aware of the limitations of free and reduced-price lunch data as a measure of low-income status, which could have implications for the targeting of Title I funds. As described in the report, we recognize that there are limitations of these data as a measure of poverty. Despite these limitations, however, we chose to use subsidized lunch data as one of our measures of poverty for several reasons. We used these data as a poverty measure at the school level because the Department of Education has found these data to be the best available source of poverty data at the school level. We used these data as a poverty measure at the school district level because subsidized lunch data are available at the school, district, and state levels, and thus provide a consistent measure across all three levels. Also, subsidized lunch data are available for nearly all school districts, including charter schools, whereas Census poverty estimates are available only for the somewhat limited number of school districts included in Education's database. While recognizing the limitations of subsidized lunch data, we believe the use of it, along with Census poverty estimates, strengthens our report findings. USDA's written comments are printed in appendix V.

We are sending copies of this report to the Secretaries of Education and Agriculture and interested congressional committees. We will also make copies available to others upon request. If you have any questions concerning this report, please contact me on (202) 512-7215. Other GAO contacts and staff acknowledgments are listed in appendix VI.



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United States Senate

Appendix I: Objectives, Scope, and Methodology

As mandated by the Congress (Public Law 106-554 Sec. 305), we designed our study to provide information on (1) the extent to which Title I funds are allocated to states, school districts and schools with the greatest numbers and percentages of school-age children from low-income families; (2) the extent to which allocations of such funds adjust to shifts in numbers of children from low-income families; (3) the extent to which the allocation of Title I funds encourages the targeting of state funds to school-age children from low-income families; and (4) what options might improve targeting of funds, especially to states and school districts with higher numbers and percentages of poor children, to more effectively serve those children. To determine the extent to which Title I funds are targeted to poor children, we used two measures of poverty and two types of allocation data. We used the Census Bureau's updated decennial poverty data for one measure. Census poverty data are used by the U.S. Department of Education to calculate Title I formula allocation amounts. For the second measure of poverty, we used eligibility for free or reduced-price lunches through the National School Lunch Program, a federal food assistance program administered by the U.S. Department of Agriculture for children from low-income families. The subsidized lunch program provides the best source of data on low-income students at the school-level, according to the Department of Education, and these data are also available for the district and state levels.

We determined how states actually allocated Title I funds to each of their school districts by collecting 1999-2000 allocation information directly from state Title I officials in every state and the District of Columbia. In this report, we refer to these data as "actual allocations" or simply "allocations." We compared the actual allocations with the amounts generated by the Title I formula calculations for the 1999-2000 school year, which we obtained from the Department of Education. In this report, we refer to these data as "formula calculations." Formula calculations are the data typically used in analyses of the Title I program. The formula calculations accurately reflect the amount of funds allocated to each state, but these data do not reflect changes that states subsequently make to the formula-calculated amounts when allocating the funds to their school districts. We also interviewed state Title I directors in each of the 50 states and the District of Columbia about their experiences and perceptions of the Title I program. We examined school district policies for allocating Title I funds to schools by surveying a nationally representative, stratified sample of school districts. In addition, we reviewed school-level allocation data from the few states that were able to provide it.

We examined the responsiveness of state-level Title I allocations to shifts in poverty by analyzing Census data and Title I allocation data from the Department of Education for the period of 1980 to the present. We analyzed the relevant statutory provisions and reviewed our previous reports to identify incentives for states to target their own funds. Finally, we determined the consequences of various policy options by examining the Title I formulas and running simulations of Education's formula calculation process for states and school districts for the 2001-02 school year. We conducted our work from December 2000 to December 2001 in accordance with generally accepted government auditing standards.

Federal Funding Formulas

From the Title I statute, we obtained the formulas that Education is required to use to calculate Title I grant amounts. We met with Education officials to discuss their procedures for using the formulas and data to calculate grant amounts. We used these procedures to replicate Education's formula calculations for the 1999-2000 and 2000-01 school years and as the basis for computer simulations of various changes that could be made to the formulas.

Education's Title I Formula Calculations

From the Department of Education, we obtained the grant amounts calculated for school districts for the 1999-2000, 2000-01, and 2001-02 school years, which Education generated using the federal funding formulas included in the Title I statute. The school districts for which Education calculated grant amounts in the 1999-2000, 2000-01 school years were those known to Education in the 1995-96 school year. The school districts for which Education calculated grant amounts in the 2001-02 school year were those known to Education in the 1997-98 school year. At no time have the calculations included charter schools. The data set from Education also included 1995 Census data on the characteristics of these school districts, such as numbers of school-age poor children, total numbers of school-age children, and total resident populations, which Education used in calculating grant amounts. The formula calculations were used to examine their relationship to poverty and other characteristics of school districts and to compare the formula calculations to the actual allocations that school districts received.

Actual Allocations to School Districts

We collected data from state Title I program directors on the dollar amounts of Title I funds, if any, that they disbursed to each of their school districts in the 1999-2000 school year. We collected allocation data on basic and concentration grants to 14,682 school districts in all 50 states

and the District of Columbia, including data on charter schools that are independent school districts, as they existed in the 1999-2000 school year. Where possible, we matched the school district data provided by the states with the school district data provided by Education. Where the lists of school districts differed, we called state officials to verify the accuracy of their data. In most cases, state officials clarified that districts had been created, consolidated, eliminated, or had changed names since Education's data were updated in 1995. For those school districts that were identified both by state officials and Education, we compared the actual allocations with Education's formula calculations and examined the relationships between the actual allocations and Census poverty and other school district characteristics. We also used the actual allocation data to examine the relationship between the actual allocations and poverty, as measured by eligibility for free or reduced-price lunches.

School-Level Allocation Data

From state Title I directors, we requested data on the dollar amount of Title I funds that each of their states' schools received in the 1999-2000 school year, if these data were available in an electronic format. From state food services officials, we also requested for each school, electronic data on enrollment and the number of students receiving free or reduced-price lunches. Only three states (California, Georgia, and Mississippi) could provide us with school-level allocations, enrollment, and school lunch data in an electronic format for each of their schools.

For each school in these three states, we matched the allocation data to the enrollment and school lunch data and calculated both the percentages of children eligible for free or reduced-price lunch and the amount of funds received per poor child. Because we obtained data on every school within these three states, there is no estimation or sampling error associated with our results. However, our findings based on these data are not generalizable beyond the state or school year for which the data were collected.

Free and Reduced-Price Lunch Data

To estimate the numbers and percentages of children in poverty in every school district, we obtained data from state school food service officials on both the numbers of children receiving free or reduced-price lunches through the National School Lunch Program (NLSP) and the total number of students enrolled in each school district in the 1999-2000 school year. We also obtained these data at the school level, where available. Children from families with incomes at or below 130 percent of the poverty level

are eligible for free meals through NSLP; those with incomes between 130 and 185 percent of the poverty level are eligible for reduced-price meals.

We requested NSLP participation data for every school district in every state, including charter schools that are independent school districts, where available. These data were combined with school district-level data on Title I allocations in order to calculate the amount of Title I allocations per poor child received in each district.

We chose participation in the NSLP as a measure of school district poverty because it is the measure used most commonly by school districts to determine allocations to schools and is the best source of poverty data that is available at the state, district, and school levels. Because participation in the NSLP is voluntary, there is some concern that participation rates may reflect, in part, the effort schools make to encourage participation, and may not consistently reflect actual program eligibility rates across schools and school districts. There is also concern that high school students are less likely to participate in the program than younger students due to the associated stigma. Nonetheless, a National Research Council panel concluded that NSLP participation is an indicator of low family income and that the quality of NSLP data are neither appreciably better nor worse than Census data for measuring poverty, especially for areas as small as school districts.

Waivers of Title I Regulations

To obtain information on the number and types of waivers granted to districts under the Elementary and Secondary Education Act, we reviewed Education's annual reports to the Congress for 1998-2001 and met with program officials. To obtain information on the number and types of waivers granted by "Ed-Flex" states under the 1994 and 1996 Ed-Flex Demonstration Project and the Ed-Flex Partnership Act of 1999, we met with program officials and reviewed states' Ed-Flex applications on file with Education. We used this information to determine the most common types of waivers that were granted overall.

Interviews With State Title I Directors

To obtain information on both states' roles in the Title I allocation process and the opinions of state Title I directors, we conducted telephone interviews with the directors of the Title I program in every state and the District of Columbia between December 2000 and May 2001, using a semi-structured interview protocol. We asked the directors to explain exactly how they generate dollar allocations to school districts once they receive the information from the Department of Education, including how they

apportion funds to small size districts and districts whose boundaries have changed, how charter schools are handled in the allocation process, what data they use, and how recent those data are. Finally, we asked whether their states had compensatory education programs that target funding to high-poverty schools and districts and, if so, how allocations for that program were related to the allocation of Title I dollars.

Survey of School Districts

We surveyed a stratified nationally representative sample of school district administrators drawn from the approximately 13,000 school districts nationwide for which Education had calculated an initial Title I allocation amount for the 1999-2000 school year. In addition to providing information on their school districts' schools and communities, survey respondents provided information on how they measure poverty in their schools, their priorities and rationales in distributing funds, and their use of funds for district-level activities.

The sample was stratified into four categories according to the number of school-age children living in the school district boundaries, as follows: 2-500 children; 501-2,500 children; 2501-50,000 children; over 50,000 children. A random sample was drawn from each of the first three strata; all of the 96 school districts with greater than 50,000 children were included in the survey. Table 14 provides information on the total numbers of students and districts, the number of districts sampled, and the response rate for each of the strata. This sample design allows us to generalize our results to all school districts of similar sizes, including the very smallest school districts. The survey was conducted between July and October 2001 and reflects school district decisions in the 2000-01 school year.

Table 14: Number of Students, Districts, Districts Sampled, and Response Rates by Survey Strata

Strata (by number of students in district)	Number of students nationwide (percentage of all students)	Number of districts nationwide[a] (percentage of all districts)	Number of districts sampled	Response rate (percentage)
2-500 students	876,634 (0.2%)	3,385 (26%)	173	92
501-2,500	7,118,365 (15%)	5,660 (44%)	187	94
2,501-50,000	28,576493 (61%)	3,741 (29%)	397	91
More than 50,000	10,295,794 (22%)	96 (0.7%)	93	89
Total	**46,867,286 (100%)**	**12,882 (100%)**	**850**	**92**

Note: An estimated 20 percent of school districts consist of only one school, so survey questions regarding how funds were distributed among schools were not relevant.

[a]Districts sampled included only those identified by Education.

Source: GAO Analysis.

Because our estimates are based on samples, they are subject to sampling error. Table 15 shows each of our estimates and indicates the extent of each estimate's sampling error by showing the 95-percent confidence interval around that estimate. There is a 95-percent chance that the actual total falls within the interval.

Table 15: Sampling Errors

Percentage of	Sampling error[b] (percentage points)
School districts[a] prioritizing primary schools	4
School districts prioritizing poverty rankings	3
School districts preserving funds for districtwide activities	5
Urban school districts prioritizing primary schools	14
Urban school districts prioritizing poverty rankings	13
Rural school districts prioritizing primary schools	6
Rural school districts prioritizing poverty rankings	4

[a]School district officials self-identified their districts as urban, rural, suburban, or mixed.

[b]At the 95-percent confidence interval.

Source: GAO Analysis.

Interviews With Federal Officials and Education Experts

During our work, we consulted with representatives from the following agencies and organizations who have knowledge of the Title I program and related issues: U.S. Department of Education, U.S. Department of Agriculture, National Research Council, U.S. Census Bureau's Small-Area Income and Poverty Estimates Panel, Congressional Research Service, Council of Chief State School Officers, Center on Education Policy,

American Association of School Administrators, Council of the Great City Schools, and the National Association of State Title I Directors.

Appendix II: Supporting Data

Variation in Funding Per Child Under Alternative Hold-Harmless Rules by Poverty Groups

Local school districts were put into one of five groups with each group containing an equal number of poor children. The groups ranged from the lowest percentages of poverty to the highest percentages of poverty. Each group represents approximately 20 percent of all formula eligible children.[1] For this analysis, we expressed the number of formula-eligible children as a percentage of the number of children ages 5-17. Table 16 shows the average funding per child allotted by formula, formula allotments under each of the simulations, and percent differences in funding per child compared to 2001 formula allotments.

Table 16: District Funding Per Child by Poverty Group

Poverty group	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)	Ratio (highest to lowest)
2001 formula allocation						
Dollars per child	$758	$821	$826	$865	$864	114%
100-percent hold-harmless						
Dollars per child	$751	$816	$824	$869	$867	115%
Percentage difference	-0.8%	-0.6%	-0.2%	0.5%	0.3%	
Authorizing hold-harmless						
Dollars per child	$734	$826	$823	$867	$878	120%
Percentage difference	-3.1%	0.6%	-0.4%	0.3%	1.6%	
No hold-harmless						
Dollars per child	$739	$829	$820	$853	$885	120%
Percentage difference	-2.4%	0.9%	-0.7%	-1.3%	2.5%	

Note: Even though these groups represent equal percentages of children, they represent unequal ranges in terms of percentage of poverty.

Source: GAO Analysis.

Table 17 shows the coefficients of variation for figure 5.

[1]Formula-eligible children are children living in poverty as reported by the Bureau of the Census, plus Foster Children, TANF children, Neglected Children, and Delinquent Children as reported by the Department of Health and Human Services.

Table 17: Variation in Funding Per Child Within Poverty Groups

Poverty group	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)
2001 formula coefficient of variation (CoV)	30%	21%	19%	17%	19%
100-percent hold-harmless					
CoV	32%	21%	20%	18%	19%
Percentage difference[a]	3.8%	4.1%	3.3%	3.3%	3.2%
Authorizing hold-harmless					
CoV	20%	14%	15%	15%	16%
Percentage difference[a]	-33.3%	-30.0%	-21.2%	-13.6%	-15.6%
No hold-harmless					
CoV	16%	13%	14%	14%	16%
Percentage difference[a]	-48.9%	-34.3%	-28.9%	-17.1%	-15.8%

[a]Percentage differences calculated based on unrounded numbers.

Source: GAO Analysis.

Table 18 shows the data used to construct figure 6.

Table 18: Percentage Change in Funding With No Hold-Harmless, Analysis by Changes in State Poverty 2001-2002 (States Ranked by Percentage Growth in the Number of Poor Children)

State	Percentage change in formula-eligible children	Percentage change in Title I funding
Alaska	39.6	0.9
Utah	35.2	-6.8
Nevada	24.6	6.9
New Hampshire	22.1	-14.3
Massachusetts	20.1	1.8
Hawaii	17.8	7.0
Maryland	16.4	4.6
New Jersey	14.8	2.4
Colorado	13.5	2.9
Idaho	12.5	-2.3
Minnesota	11.9	1.4
Washington	11.0	1.9
Connecticut	10.8	5.6
California	8.7	4.3
Virginia	8.7	6.2
Oregon	8.6	3.1
Delaware	8.4	-16.5
Arizona	6.4	4.1
Indiana	5.9	3.3
Kansas	4.9	3.2
Rhode Island	4.4	6.2
Iowa	3.3	-9.6
Georgia	1.4	6.4
Wyoming	1.3	-9.1
North Dakota	1.0	-10.1
Nebraska	0.2	-13.2
Illinois	-0.1	2.2
New York	-0.3	3.8
North Carolina	-0.4	5.2
Montana	-0.9	-0.8
Wisconsin	-1.0	-3.2
Florida	-2.1	5.6
South Carolina	-2.3	3.7
Michigan	-3.1	-3.5
Pennsylvania	-5.1	-4.8
Oklahoma	-6.6	-1.2
Alabama	-6.9	-5.2
Ohio	-7.1	-10.7
South Dakota	-7.2	-4.7

State	Percentage change in formula-eligible children	Percentage change in Title I funding
Arkansas	-7.3	-4.5
Missouri	-7.7	-4.0
Kentucky	-7.8	-3.8
Texas	-8.1	-0.4
Maine	-8.7	-9.2
District of Columbia	-8.8	6.3
Tennessee	-11.2	-13.5
Vermont	-11.3	-8.4
New Mexico	-11.7	0.7
Louisiana	-16.0	-13.8
West Virginia	-17.1	-11.9
Mississippi	-19.9	-28.9

Source: GAO Analysis.

Replacing State Per-Pupil Expenditure Factor With a Cost of Education Factor

We analyzed three formula scenarios that replaced the state per-pupil spending factor with an alternative cost factor developed by the Department of Education: a state-level cost factor, a district-level cost factor, and a district-level cost factor combined with the hold-harmless rules described in the authorizing statute. Table 19 reports the average funding per child in each poverty group and table 20 reports the coefficients of variation in funding per child within each group that were reported in figure 7 of the report.

Table 19: Funding Per Child by Poverty Group Under Formula Options That Replace State Per-Pupil Spending With a Cost of Education Factor

Poverty group	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)	Ratio (highest to lowest)
2001 Formula allocation						
Dollars per child	$758	$821	$826	$865	$864	114%
State cost factor						
Dollars per child	$737	$815	$825	$866	$892	121%
Percentage difference	-2.7%	-0.8%	0.0%	0.1%	3.3%	
District cost factor						
Dollars per child	$746	$815	$821	$866	$887	119%
Percentage difference	-1.6%	-0.8%	-0.5%	0.1%	2.7%	
District cost factor & authorizing hold-harmless						
Dollars per child	$716	$818	$818	$873	$905	126%
Percentage difference	-5.4%	-0.5%	-1.0%	0.9%	4.7%	

Source: GAO Analysis.

Table 20: Variation in Funding Per Child Within Poverty Groups Under Formula Options That Replace State Per-Pupil Spending With a Cost of Education Factor

Poverty group	Lowest (no more than 15% poverty)	Low (15-21% poverty)	Medium (21-29% poverty)	High (29-40% poverty)	Highest (40-100% poverty)
2001 Formula					
Coefficient of variation (CoV)	30%	21%	19%	17%	19%
State cost factor					
CoV	30%	19%	17%	15%	13%
Percentage difference	-0.5%	-5.9%	-10.1%	-13.3%	-29.7%
District cost factor					
CoV	30%	20%	18%	16%	14%
Percentage difference	-1.3%	-3.7%	-4.3%	-9.2%	-25.0%
District cost factor & authorizing hold-harmless					
CoV	19%	12%	13%	13%	10%
Percentage difference	-36.1%	-40.1%	-30.4%	-26.3%	-44.6%

Source: GAO Analysis.

Appendix III: Selected Provisions of the "No Child Left Behind Act of 2001" and Related Appropriations

On January 8, 2002, President Bush signed into law the "No Child Left Behind Act of 2001," reauthorizing Title I and other Elementary and Secondary Education Act programs, with some significant changes.[1] Two days later, he signed the related appropriations law.[2] The changes to Title I relevant to this report are outlined below:

Funding for Targeted Grant Formula: For the first time, the Congress appropriated funds for targeted grants. The 2001 Act requires that the amounts allocated through basic and concentration grants are to be the same as they were in fiscal year 2001 and that any additional funds remaining (i.e., any new funds) are to be allocated through the targeted grant formula. As under prior law, a tiered weighting system would provide proportionately greater funding per poor child to districts with higher numbers and percentages of poor children. The new law changed the cut-points between the tiers slightly, based on updated Census poverty estimates, so that each tier would continue to contain roughly equal numbers of poor children.

Funding for Revised Finance Incentive Grant Formula: Not only was the finance incentive grant funded for the first time, but the grant formula and other provisions also were significantly revised. In prior law, the incentive grant formula was designed to provide additional funds to states that demonstrated high state education spending relative to their tax base and states that had less disparity in funding among districts. The new law maintains these provisions and adds several more that give proportionately more funds to states and districts with higher numbers and percentages of poor children, as follows:

- Allocations will be based on each state's number of poor children, rather than its total school-age population.
- Districts are required to have at least 10 poor children, making up at least 5 percent of enrollment to qualify for finance incentive funds, whereas there had been no such enrollment requirement in prior law.
- Allocations will be made to school districts on the basis of a tiered weighting system, like that in the targeted grant formula. The incentive grant weighting system provides proportionally more funds not only to

[1]Public Law 107-110.

[2]Public Law 107-116.

districts with greater numbers and percentages of poor children but also to districts in states with less funding disparity among districts.

- Districts are newly required to allocate finance incentive funds to schools in the same way that they allocate the other Title I funds (e.g., in rank order of poverty) and to use finance incentive funds only for Title I purposes.

In addition, the new formula includes a per-pupil expenditure factor, like that for the other grants, but more narrowly limited to a minimum of 34 percent and a maximum of 46 percent of the national average per pupil expenditure, rather than the 32 percent minimum and 48 percent maximum in the other grant formulas.

Increased Overall Funding for Fiscal Year 2002: The education appropriations legislation includes a combined increase of nearly $1.8 billion in funding for Title I basic, concentration, targeted, and finance incentive grants. (See table 21.)

Table 21: Change in Title I Appropriations Between Fiscal Years 2001 and 2002

Thousands of dollars

	FY 2001	FY 2002	Percent increase FY 2001-2002
Basic grants	$7,237,721	$7,172,971	-0.89
Concentration grants	1,364,000	1,365,031	0.08
Targeted grants	0	1,018,499	N/A
Finance incentive grants	0	793,499	N/A
Total	**$8,601,721**	**$10,350,000**	**20.32**

Source: Public Law 106-554 (Consolidated Appropriations Act, 2001), Public Law 107-20 (Supplemental Appropriations Act, 2001), and Public Law 107-116 (Appropriations Act, 2002).

Hold-Harmless: The prior authorizing legislation included a hold-harmless provision only for basic grants (districts were guaranteed 85, 90, or 95 percent of the previous year's funding, depending on percentage of poor children in the district). However, as described in the body of the report, appropriations language in recent years created more restrictive hold-harmless provisions, including (1) a 100-percent hold-harmless provision for basic grants and (2) a hold-harmless provision for concentration grants that allowed even districts no longer meeting the concentration grant eligibility criteria to continue receiving concentration grants. In contrast, the fiscal year 2002 appropriations language does not

include any provisions that override the authorized hold-harmless provisions. However, under the new authorizing legislation, hold-harmless provisions will apply not only to basic grants but also to concentration grants and targeted grants. In addition, under the new authorizing legislation, districts that become ineligible for concentration grants will continue to receive concentration grant allocations for up to 4 consecutive years.

As a result of these changes, operative hold-harmless provisions for basic grants are somewhat less restrictive than under prior law and, therefore, will allow basic grant allocations to be more reflective of the number of poor children in a school district. Likewise, the newly authorized hold-harmless provisions for concentration grants are somewhat less restrictive than the hold-harmless provisions previously included in appropriations law. In the end, allocations under these grants will be more reflective of numbers of poor children than in the past, but not as reflective of them as would have been the case under the prior authorizing legislation alone.

Small State Minimum: The minimum level of funding guaranteed to each state is increased over prior law. Previously, each state was guaranteed the smaller of 0.25 percent of total appropriations for that year, or the average of that amount and the state's number of eligible students multiplied by 150 percent of the national average per-pupil payment. The new law uses essentially the same calculation but instead of 0.25 percent of the total appropriations, the new calculation will use 0.25 percent of the amount appropriated in 2001, plus 0.35 percent of any subsequent increases in appropriations over the 2001 level.

Other Funding Details

- States are required to reserve 2 percent of their Title I funds for school improvement, increasing to 4 percent in fiscal year 2004. Previously, states were permitted, but not required, to reserve up to 0.5 percent of their funds for school improvement. States must pass at least 95 percent of these funds directly to school districts.
- Districts must continue to reserve at least 1 percent of their Title I allocations for parental involvement activities, as was required under prior law, but the new law also requires that they pass 95 percent of these reserved funds to Title I schools.
- Districts may use Title I funds for schoolwide programs, rather than targeting funds to specific students, in schools where at least 40 percent of the children in the school or school attendance area are from low-income families. Previously, schoolwide programs were allowed only in schools

in which at least 50 percent of the children in the school or school attendance area were from low-income families.

Appendix IV: Comments From the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

January 18, 2002

Marnie S. Shaul
Director
Education, Workforce, and Income Security Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Shaul:

We have reviewed GAO's draft report entitled Title I Funding: Poor Children Benefit Though Funding Per Poor Child Differs and we appreciate the thorough and useful analysis carried out by GAO staff.

We agree with GAO's finding that Title I funds are generally targeted to higher-poverty districts and schools but that this targeting could be improved. In particular, as the GAO report points out, hold-harmless provisions have limited the extent to which Title I funds follow poor children when geographic shifts in poverty occur. Although the Census Bureau now provides updated poverty data every two years (and the new reauthorization calls for annual updates), enabling the Department to use more current data for allocating Title I funds, these new data have had little effect on Title I allocations due to the restrictions imposed by 100 percent hold-harmless provisions included in every appropriations act since fiscal year 1997 (with the exception of the most recent appropriations for fiscal year 2002). As a result, States that have experienced growth in their numbers of poor children have suffered declines in their relative shares of Title I funding per poor child.

The GAO report points out the wide disparities across States in Title I funding per poor child, ranging from a high of $1,150 in Vermont to a low of $520 in New Mexico. Indeed, the Nation's poorest States receive some of the lowest allocations per poor child. GAO notes that these disparities are partly due to the use of State per-pupil expenditure factor (intended to adjust for interstate differences in the cost of education), as well as small-State minimum and hold-harmless provisions. GAO suggests that an alternative cost indicator would direct more funding to districts with higher percentages of poor children and might more accurately reflect educational costs. Although the Department has not fully examined GAO's specific suggestions for increasing the targeting of Title I funds, we strongly support the general goal expressed in the No Child Left Behind Act of "targeting resources sufficiently to make a difference to local educational agencies and schools where the needs are greatest."

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Page 2 – Marnie Shaul

The report should be updated to reflect the fiscal 2002 appropriations act which funded the Targeted Grants and Incentive Grants formulas for the first time and, unlike previous years' acts, did not include hold-harmless language. It should also reflect the passage of the No Child Left Behind Act, which revised the Incentive Grants formula to allocate funds on the basis of poverty, consistent with the other Title I formulas.

Thank you for the opportunity to comment on this draft report.

Sincerely,

William D. Hansen

Appendix V: Comments From the U.S. Department of Agriculture

USDA

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

JAN 22 2002

TO: Marnie Shaul
Director
Education, Workforce, and Income Security Issues
General Accounting Office

FROM: George A. Braley
Acting Administrator

SUBJECT: Comments on GAO Report: "Title I Funding: Poor Children Benefit Though Funding Per Poor Child Differs."

An objective of this report is to assess the extent to which Title I funds are allocated to states, school districts, and schools with the greatest numbers and percentages of school-age poor children. In its analysis, GAO uses data on approvals for free and reduced price meals in the National School Lunch Program (NSLP) as a measure of poverty at both the school and district level. The Food and Nutrition Service (FNS) recognizes that NSLP free and reduced price data is often used in this manner for both analytical and operational purposes. However, FNS has become increasingly aware of the limitations of this data as a measure of low income status. Information from a variety of sources indicates that many students who are above the NSLP income eligibility limits (130 and 185 percent of poverty) are approved for free or reduced price meals. We believe that this has important implications for the targeting of Title I funds which GAO should consider in this report.

School Level Allocations: Free and reduced price data is overwhelmingly the predominant source used by districts to allocate Title I funds among schools. GAO's current draft states that "the subsidized school lunch program provides the best available source of data on low-income students at the school level" and does not comment further on its accuracy for school-level allocations. We believe, however, that error in NSLP data is likely contributing to inaccuracies in Title I funds allocation, particularly because of the "threshold" approach reflected in the district allocation process. Schools above a given percentage of enrollment approved for free and/or reduced price meals receive funding while those below this percentage do not. If some schools only meet the threshold because ineligible students are included in the free and reduced price counts, then funds are being diverted from needier schools whose true eligibility levels meet the threshold.

District Level Allocations: NSLP free and reduced price data are not important determinants of district-level Title I allocations. However, the draft report does use these data as a measure of district level poverty, and notes in several places that such data are closely linked to district-level poverty levels. FNS does not believe that this

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relationship is as strong or consistent as a reader of this draft might conclude. For example, FNS will soon be releasing data on free and reduced approvals which suggests significant variation in its accuracy (and thus its accuracy as a proxy for poverty) among school districts. Further, the NAS study cited in this report as evidence of this relationship was based on a very small sample of districts, and the NAS itself noted that further assessment is needed.

To summarize, we believe that in order to present a full assessment of the accuracy of Title I targeting to low-income schools and districts, the report should address these issues. We would be happy to discuss these comments with you further.

Appendix VI: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to those named above, the following people made significant contributions to this report: Natalie Britton, Karen Brown, Patrick DiBattista, Robert Dinkelmeyer, Jerry Fastrup, Sarah Glavin, Sonya Harmeyer, Peter Minarik, and Michael Williams. Jon Barker, Richard Burkard, and Robert Parker also provided key technical assistance.

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